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Special Joint Committee on Consumer credit
Proceedings. 1966-67


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First Session—Twenty-seventh Parliament

1966

PROCEEDINGS OF THE SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON

CONSUMER CREDIT

(PRICES)

No. 17–27

THURSDAY, NOVEMBER 10, 1966

JOINT CHAIRMEN

The Honourable Senator David A. Croll

and

Mr. Ron Basford, M.P.

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WITNESSES:

Kellogg Company of Canada, Ltd.: Mr. Gerry D. Robinson, President.

General Foods Limited: Mr. James W. Andrews, President; Mr. Marcel Poirier, Sales Manager, Beverage Division; Mr. Robert S. Hurlbut, Vice-President, Marketing.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1966

25157—1

MEMBERS OF THE SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON CONSUMER CREDIT

(PRICES)

For the Senate

Hon. David A. Croll, Chairman

the Honourable Senators

Carter,
Cook,
Croll,
Hastings,
Hollett,
Inman,
McDonald (*Moosomin*),
McGrand,
O'Leary (*Antigonish-Guysborough*),
Thorvaldson,
Urquhart,
Vaillancourt—(12).

For the House of Commons

Mr. Ron Basford, Joint Chairman

Members of the House of Commons

Allmand,
Andras,
Basford,
Cashin,
Choquette,
Clancy,
Code,
Crossman,
Duquet,
Gray,
Horner (*Acadia*),
Irvine,
Leblanc (*Laurier*),
Lefebvre,
MacInnes,
Mandziuk,
McCutcheon,
McLelland,
Olson,
Otto,
Ryan,
Scott (*Danforth*),
Smith,
Whelan—(24).

36 members
Quorum 7

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SUPPLEMENTARY ORDERS OF REFERENCE

Extract from the Votes and Proceedings of the House of Commons, September 9, 1966:—

"Mr. Sharp, seconded by Miss LaMarsh, moved,—That the Joint Committee of the Senate and House of Commons appointed by this House on March 15, 1966, to enquire into and report upon the problems of consumer credit, be instructed to also enquire into and report upon the trends in the cost of living in Canada and factors which may have contributed to changes in the cost of living in Canada in recent months;

And that a Message be sent to the Senate to acquaint Their Honours thereof and to request the concurrence of that House thereto.

And the question being proposed;

Mr. Pickersgill, seconded by Mr. McIlraith, moved in amendment thereto,—That the motion be amended by striking out the words "by this House on March 15, 1966" where they appear in the second line thereof and by inserting in the motion as the second paragraph the following:

"That the Committee have leave to sit notwithstanding any adjournment of this House;".

And the question being put on the said amendment, it was agreed to.

After debate on the main motion as amended, it was agreed to."

Extract from the Votes and Proceedings of the House of Commons, October 7, 1966:—

By unanimous consent, Mr. Basford, seconded by Mr. Allmand, moved,—That the First and Second Reports of the Special Joint Committee on Consumer Credit and Cost of Living, presented to the House on Friday, April 1 and Thursday, October 6, 1966, be concurred in.

After debate thereon, the question being put on the said motion, it was agreed to.

Accordingly, the said Reports were concurred in and are as follows:

FIRST REPORT

Your Committee recommends that seven (7) of its Members constitute a quorum, provided that both Houses are represented.

SECOND REPORT

Your Committee recommends that the House of Commons section of the said Committee be granted leave to sit while the House is sitting.

LÉON-J. RAYMOND,
Clerk of the House of Commons.

Extract from the Minutes of the Proceedings of the Senate, September 13, 1966:—

"The Honourable Senator Connolly, P.C., moved, seconded by the Honourable Senator Hugessen:

That the Senate do agree that the Joint Committee of the Senate and House of Commons appointed to enquire into and report upon the problems of consumer credit, be instructed also to enquire into and report upon the trends in the cost of living in Canada and factors which may have contributed to changes in the cost of living in Canada in recent months; and

That a message be sent to the House of Commons to acquaint that House accordingly.

After debate, and—

The question being put on the motion, it was—

Resolved in the affirmative."

J. F. MacNEILL,
Clerk of the Senate.

MINUTES OF PROCEEDINGS

THURSDAY, November 10, 1966.

Pursuant to adjournment and notice the Special Joint Committee on Consumer Credit (Prices) met this day at 9.30 a.m.

Present: *For the Senate*: The Hon. Senators Carter, Croll (*Joint Chairman*), Hollett, Inman, McGrand, O'Leary (*Antigonish-Guysborough*) and Thorvaldson.—7.

For the House of Commons: Messrs. Allmand, Basford (*Joint Chairman*), Lefebvre, MacInnis, Otto and Scott (*Danforth*).—6.

In attendance: Dr. R. Warren James, Special Assistant; Mr. John J. Urie, Q.C., Counsel; Mr. Marcel Joyal, Q.C., Associate Counsel; Mr. Jacques L'Heureux, C.A., Accountant.

The following was heard:

Kellogg Company of Canada, Limited:

Mr. Gerry D. Robinson,
President.

At 1.00 p.m. the Committee adjourned.

At 3.00 p.m. the Committee resumed.

Present: *For the Senate*: The Hon. Senators Carter, Croll (*Joint Chairman*), Hollett, Inman, McGrand, O'Leary (*Antigonish-Guysborough*) and Thorvaldson.—7.

For the House of Commons: Messrs. Allmand, Basford (*Joint Chairman*), Mandziuk, MacInnis and Scott (*Danforth*).—5

In attendance: Dr. R. Warren James, Special Assistant; Mr. John J. Urie, Q.C., Counsel; Mr. Marcel Joyal, Q.C., Associate Counsel; Mr. Jacques L'Heureux, C.A., Accountant.

The following were heard:

General Foods Limited:

Mr. James W. Andrews, President.
Mr. Marcel Poirier, Sales Manager,
Beverage Division.
Mr. Robert S. Hurlbut,
Vice-President, Marketing.

At 6.00 p.m. the Committee adjourned until Tuesday next, November 15, at 9.30 a.m.

Attest.

John A. Hinds,
Assistant Chief,
Senate Committees Branch.

THE SENATE

SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON CONSUMER CREDIT

EVIDENCE

OTTAWA, Thursday, November 10, 1966.

The Special Joint Committee of the Senate and House of Commons on Consumer Credit met this day at 9.30 a.m.

Senator David A. Croll and Mr. Ron Basford, M.P., Co-Chairmen.

Co-Chairman Senator CROLL: I see a quorum, and I call the committee to order.

Members of the committee, the Swift Canadian Co., Limited appeared before this committee on November 8, 1966. The evidence it presented was inconclusive, and not as complete as that given by the other meat packing companies. We require full disclosure, pertinent and meaningful. The committee has requested the Swift Canadian Co., Limited to appear before it again on November 22, 1966.

Appearing before us this morning is the Kellogg Company of Canada Limited, and it is represented by its President, Mr. Gerry D. Robinson. Will you proceed, Mr. Robinson?

Mr. Gerry D. Robinson, President, Kellogg Company of Canada, Limited: First of all, Mr. Chairman, let me apologize for not having available the French translation of our submission. Our submission was sent early this week for translation, and copies of it in French will be available tomorrow. I shall make sure that they are forwarded immediately to Dr. James.

Our company employs approximately 700 to 750 people in Canada, of whom all except 60 are at our plant in London, Ontario. Our principal products are ready-to-eat cereals which we sell to customers throughout Canada, and we have a small but growing export business in cereals. We sell most of our cereals in Canada to grocery retailing organizations, and to jobbers who resell to retailers. All cereal products sold through these channels are sold under the Kellogg label.

To produce our cereal products, we obtain raw materials, principally grain, packaging materials, sugar, and a number of other ingredients. Of the grains, we use corn, wheat, rice, and oats. Our wheat and oat requirements are purchased from domestic sources. Our rice requirements are purchased from a domestic mill, which of course must buy brown rice from sources outside of Canada. In 1965 we purchased 73,855 bushels of wheat and 575,630 bushels of domestically grown corn. 115,055 hundredweight of rice was purchased from domestic millers.

Our packing requirements are mainly paper products and aluminum foil. In 1965 we bought 9,648 tons of paper products, as well as 284,000 pounds of aluminum foil, all from domestic sources.

Our merchandise after production, packaging, and delivery to our direct customers is then distributed to the retail stores and placed in their cereal sections where consumers may if they happen to favour a ready-to-eat cereal product over other foods, and our cereal over competitors', purchase our product.

I would like to discuss briefly the grocery business and how the Kellogg Company is related. The first thing that must be realized is that the nature of the grocery products available, and the manner in which they are made available, are determined in the final analysis by the demands of the consumers.

The grocery manufacturer finds himself as a link in a chain of distribution from the primary producer to the eventual consumer.

The grocery manufacturer, processor, wholesaler, and retailer hotly compete for the favours of the consumer. Any organization in the grocery business which cannot, or will not, sense and anticipate what the consumers are going to demand will find that the consumers whom they relied on to purchase their products or to patronize their store, will have shifted to other products or stores, and they are no longer in business.

In this competitive setting, we can look at the changes in the grocery business with better understanding. Not too many years ago, stores were generally a great deal smaller than they are now. There were a large number of stores doing a substantial portion of their business in the sale of meats only, and there were others which sold predominantly groceries with a relatively small volume of meats and produce. Items which are not food were sold only in insignificant quantities.

The modern supermarket presents a vastly different picture. The large self-service supermarket stores owned by independents, voluntary groups, co-operatives and chains do the largest portion of the grocery retailing business. The consumers' desire for one-stop shopping has been met. The stores doing most of the business carry a full line of groceries, meats and produce, as well as a large number of non-food items—soap, paper plates, cigarettes, kitchen utensils —just to name a few. The consumers' desire for convenience has been met in that a large number of products which can be served with a minimum of preparation in the home are now being offered in the store. Manufacturers and retailers who have failed to provide for the changing needs of consumers have lost their customers and are no longer around.

Other factors have brought about change in the grocery business. The increasing costs of labour as well as consumer preferences have brought about the self-service store to replace the one in which a clerk assembled an order. Rising costs of labour, transportation and other necessary elements are bringing about changes in the methods of grocery distribution. More products are being shipped by rail to distribution points where they are unloaded and moved relatively short distances to retail stores where they are often stocked on the grocery store shelves without being held in a storeroom. Rising costs and the need for capital for investment in facilities rather than inventory, as well as consumer demands for fresher products, have caused all levels of the grocery business to strive to reduce inventory levels so that production and retail sales are more closely tied together. On the other hand, consumer desires for food products which may be harvested only at certain times of the year have tended to either increase warehousing costs or, if the product is obtainable during a local off-season from a remote source, prices tend to be higher as a result of increased transportation costs.

Increasingly strict standards of sanitation in plants, in shipping, in warehousing, and in stores increase the costs of doing business.

In the face of rising costs, the grocery trade has adopted new and improved methods. Despite the problem of rising costs, the average Canadian family spends approximately 20 per cent of its income on food, which is now lower than it has ever been.

In the cereal business as with many other phases of the grocery business, we have been working to improve our methods and techniques. Improved ma-

chinery has been installed in order to hold down the increases in processing costs.

By committing ourselves to buy large quantities of milled rice over a long period of time, we have encouraged a rice miller to build new capacity in a more favourable location where the transportation costs to our London plant are lower so we can bring rice in at a lower cost.

Unfortunately our efforts to keep costs down have not been sufficient to offset the rising costs of operating our business.

Our Company had an opportunity in November of 1958 to present a submission to a Royal Commission which at that time was studying the price spreads of food products.

The details presented at that time covered the period 1949 through 1957. All of this information I am certain is available here in the records in Ottawa. With the Committee's permission I should like to pick up where we left off in 1958 so that a complete review of our operating experiences from 1949 through 1965 will be a matter of record.

The increases in our prices since 1958 are illustrated by the following table which shows our price of a composite eight ounce package of Kellogg's cereals using 1958 as an index:

Index based on	1958	100
	1959	102
	1960	103
	1961	103
	1962	107
	1963	110
	1964	116
	1965	117

As an aside, Mr. Chairman, this composite package was determined by the total number of pounds we shipped projected in eight-ounce packages and divided into the sales total for the year.

During the same period, items of cost increased substantially. Among the principal items of cost in manufacturing cereals and delivering it to purchasers are the purchase price of grain, purchase price of packaging magerial, transportation and wages.

Let us deal firstly with our cost of grain. This table shows the average cost per hundred pounds of grain ingredients from 1958 through 1965.

Index based on	1958	100
	1959	99
	1960	101
	1961	96
	1962	109
	1963	110
	1964	113
	1965	122

It should be noted that the figures relating to our cost of grain do not represent the prices received by the farmer.

The prices we pay for the grain include elevator charges, transportation, partial milling or processing in the case of some grains, and in some cases, storage.

In addition to the increased prices that we pay for grains, a number of other factors contribute to our increased grain costs. Rice, which is one of our major grain requirements, and because of source of supply must be imported, ex-

perienced an increase resulting from the devaluation of the Canadian dollar requiring the addition of the exchange rate to our cost of rice.

Again, Mr. Chairman, I appreciate that this goes back a number of years, but on the price of brown rice. This represents about 50 cents per hundredweight and our usage last year would represent an additional cost of about $60,000.

Our desire to purchase as many of our raw material requirements as possible from Canadian sources places us in a position of paying a higher price for some of our raw materials. By way of example, our present day price of oat flour is $7.25 a hundredweight versus a comparative price from the United States of $6.49.

The composite figures also include a shift in the proportionate quantities of each type of grain. Since 1958 consumers preference for cereal of a rice base has caused an increase in our needs for rice in proportion to the total needs for grain.

The increasing proportion of our grain requirements represented by rice is reflected in the above table.

There is another aspect of the price of corn which is worth mentioning now. To make Corn Flakes we must first remove from corn the hull and the germ leaving only the endosperm. The endosperm is then broken up into pieces by milling, the larger pieces called flaking grits being the only ones suitable for processing with our equipment into Corn Flakes, our largest volume cereal. When corn was partially dried in the field and finally dried in cribs, a reasonably good yield of flaking grits could be obtained from a given quantity of corn. Unfortunately for our purposes there has been, as a result of mechancial picking of corn, an increase in the kiln drying of corn. Kiln drying dries the corn kernel rapidly but the rapid drying results in checks or fractures forming through the endosperm. When the checked endosperm is milled into grits, it has a much greater tendency to break into small pieces and the yield of the large flaking frits is greatly reduced. The smaller pieces called hominy, must be sold as by-products at a very low price leaving the net cost of flaking grits to us considerably higher. Our yields of corn grits have declined and this could continue with expected increases in mechanical picking and kiln drying of corn.

In this age of grocery supermakets that stock thousands of items, it is essential if a product is to compete successfully, that the package be attractive. The decision to buy or not to buy is many times influenced to a great degree by the appearence of the package. Attractive packaging complements the advertising and helps to increase the volume of sales which is so necessary to keep unit costs and prices at a minimum.

During the years prior to 1964, our company marketed its cereals in packages that were quite wide and rather thin, with this condition pretty general within the industry.

Our packaging studies which are conducted on a continuing basis indicated that the shape and design of our packages was wrong for three very important reasons. First, the package being tall and rather thin would not stand up properly on a consumer's breakfast table; and secondly, these packages required considerably more space of an already crowded grocery store's shelf. In addition to this, it was determined that we were using more packaging material than was absolutely necessary. Realizing the undesirable nature of this type of packaging, our company took corrective action.

During the days of the wider, taller packages, Kellogg's produced nine cartons of different cubic content which required an inventory of nine different widths of carton board and nine different widths of inner bag materials. As a result of changes that were made, we were able to eliminate three package sizes, and as a result, three widths of carton board and three widths of inner bag materials.

In addition to lower inventories of packaging material, we were also able to better utilize our packing equipment, and the efficiencies of this equipment. Current studies have been developed and it is anticipated that some time during next year we will be able to eliminate a further two sizes, all of which will have their effect on keeping our packaging costs at a minimum.

Our products which are semi-perishable, require adequate packaging protection to guarantee that they are received on the consumer's breakfast table in a fresh condition. We at Kellogg's operate our own printing department in which we print, cut, and slot all of our package requirements.

We can therefore supply to our packing department cartons that are not only attractive, but cartons that are provided at an appreciably lower cost than if they were obtained from an outside source of supply.

During the past few years, there have been three major factors which should have contributed to increased packaging costs:

1. Increased costs of raw materials from our supplier.
2. A change from a sulphite inner bag material to a laminated material which was absolutely necessary in order to preserve the freshness of our product.
3. Increased usage of aluminum foil inner bag material for our presweetened products which have proven to be the fastest growing segment of the total ready-to-eat cereal industry.

Our cost of packaging materials as a percentage of our gross sales during this period decreased as follows, and we suggest indicates the success we have had in actually reducing our costs.

1958	11.91
1959	12.07
1960	11.67
1961	11.79
1962	11.39
1963	10.65
1964	10.12
1965	9.26

This represents a reduction of 2.65 per cent.

A high degree of mechanization has always been maintained in our factory requiring well trained and skillful operators. Labour costs have increased substantially during the period. The increase in hourly wage costs (direct wages including overtime premiums, plus fringe benefits) during the years 1958 through 1965 has been as follows:

Index based on	1958	100
	1959	103
	1960	110
	1961	117
	1962	120
	1963	133
	1964	139
	1965	152

We ship our cereals for the most part by rail in carload lots to grocery retail chains or to grocery jobbers who resell to retailers. Oour company quotes a freight prepaid price to the customer and stands the cost of delivery to customer's warehouse. For a carload of corn flakes delivered to a customer, be he in St. John's, Newfoundland or in Victoria, British Columbia, or in London, quite close to our plant, the price is identical. When these shipments are invoiced, they

are invoiced at the gross amount and we allow one per cent cash discount providing payment is made within the specified period.

This method of distribution provides fast, efficient, low cost distribution of our products, and with the relatively stable freight rates, our total cost of distribution for our products has been kept to a minimum.

		Freight Cost Index
Index based on	1958	100
	1959	104
	1960	102
	1961	101
	1962	104
	1963	102
	1964	103
	1965	103

The major portion of the price increases has been made necessary by increases in the prices the company must pay for the same raw materials, labour and other items which were used in 1958. There was another factor present which also contributes to rising costs of the composite cereal package. A substantial portion of the increase in the composite price for Kellogg's cereal was made necessary by demands of consumers for products containing more expensive ingredients. For example consumers have been selecting cereals with a higher sugar content. Since sugar is a more expensive ingredient than grain, the cost of raw materials for the composite package with a higher content of sugar will be increased.

This ready-sweetened segment of the ready-to-eat cereal industry has and continues to be the fastest growing segment within the market as indicated on the following table:

READY-SWEETENED CEREALS

	Total Pounds (000)	% of Total Market
1958	9,157	10.6
1959	11,486	13.2
1960	12,198	13.5
1961	12,341	13.3
1962	13,836	14.5
1963	15,983	15.7
1964	18,744	17.9
1965	20,506	19.2

From a base of 9,000,000 pounds in 1958, the ready-sweetened segment increased to 20,500,000 pounds in 1965. Their share of the total ready-to-eat cereal market has increased from 10.6 per cent in 1958 to almost one-fifth of the total industry's volume in 1965. We suggest that this is certainly substantial growth for any particular type of ready-to-eat cereal and certainly demonstrates a broad consumer acceptance.

These products require more expensive ingredients and more expensive processing and their inclusion in the product mix tends to increase the cost of the product mix and the cost of the composite package.

I should like to dwell briefly on how our company views the future of the ready-to-eat cereal industry, the part that it will play in the economy of the country, and how this might be accomplished. We know from the per capita consumption of ready-to-eat cereals in different countries around the world that there is a vast opportunity for increased business in our industry. The per capita

consumption of ready-to-eat cereals in Australia is 7.3 pounds, in the United States 6.1 pounds, whereas in Canada it is 5.5 pounds. In the Province of Quebec per capita consumption is 3.5 pounds. This perhaps demonstrates in part the opportunities available to our industry and we feel suggests that many Canadians do not include a ready-to-eat cereal as part of their daily intake of food.

We believe that never, at any other time of the day, is the body more ready, or more in need of nourishment, than first thing in the morning. Under normal conditions it has been eight hours since the system has been exposed to the tensions of the day's activity or exposed to the intake of food. We suggest that breakfast is the important meal of the day and that a ready-to-eat cereal is an important part of any breakfast. We believe that our company's potential lies in broadening and increasing the per capita consumption of ready-to-eat cereal.

This is not only important to those of us in the ready-to-eat cereal industry, but equally as important to the primary producers, in that by increased consumption we can utilize greater quantities of cereal grains that are grown by the producer. Growth by our industry will make possible greater usage of other raw materials, manpower, and other services that go into the manufacture and sale of our type of product.

Ready-to-eat cereals are in constant competition with bacon, with eggs, pancakes, sweet rolls, and a recent addition to the Canadian market, an instant or a minute breakfast, for a consumer interest and a place at their breakfast table. We might also say we are in competition with another very strong competitor, that being an extra ten minutes in bed in the morning, whereby insufficient time permits only the intake of perhaps a cup of coffee rather than a well-balanced breakfast. We suggest that every man, woman, and child in the country could work better, think better, and play harder if they were to start their day with a well balanced breakfast. How, then, is the ready-to-eat cereal industry to compete with all of these powerful forces?

We suggest one way is to produce top quality products at a price that is within the consumers limitations and one which obtains consumer acceptance. We know there is a need for the introduction of new types and new flavours which might possibly influence some of those who do not include a ready-to-eat cereal as part of their daily diet, to do so. Our research and development department are continually working with different combinations of grains and flavours in order to develop these new products. When such a product has been developed and before equipment to manufacture is acquired, it is absolutely essential that we test the reaction of the consumers.

A number of consumer research organizations are available for our use. Samples of the actual product in a plain carton along with a questionnaire are distributed to a given number of households who are asked their opinion of this new product to determine if they would purchase such a product if it were available. Should the results of this research be positive, it is then necessary to determine what volume might be expected from this product based on present day market conditions.

We feel we should explain our attitude on package sizes at this point. When we bring out a new product we first market it in a package size which contains enough product to give the family a chance to find out if they like the product, but at the same time it must not be so large that people are unwilling to try it. We can also achieve packing line and packing material efficiencies which I mentioned before if we pack it in a package of the same dimension as is used products already in the market.

Consumer needs vary widely in the amount of cereal they require to satisfy this need. A single person or a married couple may prefer the smallest family size package, while a larger family prefer the larger size package. People who

live in the damper climates prefer smaller packages which are eaten quickly after being opened. To justify more than one package size for any given product it must serve the needs of a particular group of consumers.

If a product is a success, we believe we can better serve the consumers by making another size available. This is only possible if a second size can be made available without loss of production or distribution efficiency. We believe that a product must represent between 1.5 and 2 per cent of the cereal market before a second is considered, and to put that into perspective this would be between 1½ million and 2 million pounds. By taking advantage of the efficiencies of the larger package, the product in these larger sizes is available not only to satisfy the consumer need but can be provided at a somewhat lower price per ounce of cereal. Then if the product is really a success a third size is made available again at a lower price per ounce. We believe that a third size should not be added unless a product represents at least 5 per cent of the market. Generally, when finalizing the selling price we must consider a number of factors. Is the product priced at a reasonable level. Do we see reasonable turnover possibilities. Does the cost of materials and manufacture present this product as an eventual profit producer over an extended marketing experience.

We suggest that an adequate, informative, and factual advertising and promotion program plays an important role. A packaged goods business, such as Kellogg's, depends on a completely integrated process of manufacturing, distributing and selling of low unit-cost products to millions of people.

In such a business, the whole key to volume manufacture, and hence to low-cost manufacture, is to keep the stream of goods moving off the grocers' shelves and into the hands of the consumers every day in the year. The decision to buy, or not to buy, Kellogg's product is made thousands of times each day by thousands of people in hundreds of stores. If these thousands are not continuously reminded and persuaded to buy Kellogg's products, volume falls off and unit costs increase. The principal means for such mass persuasion is advertising. This is particularly true in the case of an institution such as Kellogg's, which sells to the entire country, and where low costs are dependent upon continuous maintenance of volume production.

Accordingly, in order to increase volume and reduce unit-costs, Kellogg has from the beginning extensively advertised and promoted the sale of its cereal products through advertising in daily and weekly newspapers and in nationally circularized magazines throughout the country. In recent years a substantial amount of advertising of Kellogg products has been made over radio and television broadcasts, both by spot announcements and programs. The costs of advertising are continuously increasing, along with the costs of other things which the company buys.

This chart indicates the increased price of advertising that faces all advertisers in the country.

INCREASED COST MEDIA—CANADA
USING 1958 AS BASE OF 100%

	T.V.	Newsp.	Print Wknd. Supp.	Magazine	Radio
1958	100	100	100	100	100
1959	95	107	100	100	106
1960	100	109	111	101	108
1961	115	111	124	102	112
1962	121	115	124	103	114
1963	125	118	124	98	122
1964	133	119	128	102	125
1965	139	125	133	109	130

The indication here is that our cost of television has increased about 39 per cent since 1958; newspapers have increased 25 per cent and radio has gone up 30 per cent.

Let me digress for a moment and take you back to the early years of the ready-to-eat cereal business when it was considered that ready-to-eat cereals were really a ready-to-eat warm weather or summertime breakfast cereal. This had the effect of heaping up business in the middle five or six months of the —namely April through September. From October through the end of March, our factory was practically idle. This meant that the April—September period had to carry all of the fixed expense for the entire year.

It was also difficult to retain a well trained staff as we had long periods of lay-off. From one-half to two-thirds of our people were laid off in October and did not return to work until April the following year.

In the mid 1930's a new promotional and advertising plan was introduced. We began using both adult and juvenile premiums during the cold weather periods backed by advertising and store display material. The results were almost immediate, and by 1941 we had levelled out our shipments to a year-round business.

Perhaps this chart will illustrate the point that I have been trying to make.

	1936	1956	1965
First quarter	15.1%	25.1%	25.3%
Second quarter	33.6	27.4	26.6
Third quarter	43.9	26.8	26.6
Fourth quarter	7.4	20.7	21.5

You will note that in 1936, 77.5 per cent of our business was done during the second and third quarter leaving only 22.5 per cent for the other six months of the year. In 1965, 53.2 per cent of our business was done in the second and third quarter with 46.8 per cent of our business represented in the other six months. This even flow of business has permitted greater utilization of our production facilities during each month of the year and has been a major factor in keeping down the selling price of our products.

Our promotional activity has varied in form over the years, and we currently use four basic types of promotion: self liquidating premiums, package inserts, contests, and coupons.

Self-liquidating premiums are those that are offered to consumer for a given number of box tops and an amount of cash. Manufacturers of this type of product are continually developing new ideas and present them to manufacturers for their possible use. These items are presented to the manufacturer at a price which includes the cost of the item, cost of packaging, handling and mailing to place these premiums in the hands of the consumers. We as manufacturers, do not handle the distribution of the premiums but rather they are handled by a premium supply house. The manufacturer does not receive the cash. Our only involvement is to see that the consumer receives statisfaction.

Package inserts, typically a plastic toy or an edible type of premium used in cereal packages, are generally directed to the juveniles. Experience has shown that a product supported by this type of promotional activity does respond. The total cost of package inserts used by our company in 1965 when related to the total number of packages that were sold during the year, would represent only one-tenth of one cent per package and would certainly not reflect in the selling price of our product.

Our company uses consumer contests as part of their promotion program whereby a customer can win a given prize by entering the contest. The prizes

involved with our contests are generally provided to us at no cost by the manufacturer of the item that is to be given away. The only cost that is experienced by our Company is a minimal charge to cover the judging of the contest, always handled by an independent judging organization.

We make some use of coupons in our business, either in a newspaper mailed direct to the household, or included in one of our cereal packages. Coupon promotions have a two-fold purpose. First they provide a means of sampling a product and, perhaps as importantly, provide a price incentive on a particular product during a specified period.

The formulating of an effective advertising and promotion program has become a highly skilled profession. I do not refer here to the copy that is being used, but more particularly to the weight of advertising that is necessary.

The skills of highly trained advertising people as well as people knowledgeable in the aspects of marketing combine their talents to provide an advertising program that will make possible some of the objectives we have talked about earlier, and do this with a minimum of cost. Our ratio of advertising and promotion costs to gross dollar sales is illustrated in the following table:

1958	13.41
1959	15.91
1960	14.43
1961	14.57
1962	19.36
1963	13.89
1964	14.39
1965	14.17

Now, while this fluctuates from year to year, our company operates in the 13½ to 14½ area for our total advertising and promotional expense.

We have illustrated thus far what changes have taken place in our prices. We have reviewed the increased costs of labour and the increased costs of some raw materials. We have reviewed our packaging costs, our cost of transportation, and our cost of advertising. All of these costs involved in operating a business represent the difference between our total dollar sales and our resulting profits. Profit on all of our cereal has not contributed to increases, although it has fluctuated considerably during the period. The ratio of profits is lower in 1965 than it was in 1958 as indicated in the following table:

Index based on	1958	100
	1959	82
	1960	92
	1961	77
	1962	46
	1963	87
	1964	87
	1965	95

In August 1964, the Kellogg Company found it necessary to effect an increase in the selling price of their products, and there was no further increase in the selling price to our customers until September 1, 1966, and as a result did not contribute to increased food prices during the critical period 1965 through to mid-year 1966.

During the first nine months of 1966, versus same period in 1965, Kellogg Company dollar sales have increased 10.5 per cent while profits have declined 9.6 per cent.

In conclusion I would like to say that all levels of the grocery industry have been faced with rising costs. These rising costs have forced manufacturers to seek more efficient ways of manufacturing and distributing food products in an attempt to offset these rising costs. All phases of the grocery industry recognize their responsibility to the consuming public and continue in their efforts to provide food products of quality, good service, and at a reasonable price. Their co-operative effort has made it possible for the average Canadian family to obtain their food requirements for approximately 20 per cent of their income which is the lowest that it has ever been.

Now, Mr. Chairman, I have included in the last page of our submission a corporate history of our company from 1958 through 1965, and I would like to go down through each of these separate items and describe to the committee just what costs are involved in each of these headings.

I have indicated that we pay one per cent cash discount, and that is true. Some of our customers do not take advantage of this, and as a result there are three figures I would like to add in that are not there already. .92 is the percentage of the gross dollar sales for cash discounts. This is accounted for by the fact that all our customers do not take advantage of our cash discount.

"Volume Incentives, Free Goods and Allowances"—this is the total percentage of gross sales provided on an equitable basis to a direct purchaser. That figure for 1965 is 2.58 per cent.

"Unsalable Goods"—our company adheres to a very strict freshness control policy and each of our packages is coded with the date and the month that the product is made. For example a wheat product has a tendency to become unsaleable far more quickly than a corn product. Our salesmen are continually watching this in the stores and where there is a question about the freshness or quality of a product it is picked up and destroyed. Then there are damaged goods, damaged going out from our plant or from there to the stores and this represents .17 per cent of our gross sales.

"Grain Ingredients",—this should read "Grain and Other Ingredients" and it includes all the raw material used in the production of a product with the exception of packaging material. The item for costs of "Packing Materials" includes cartons and liner material and shipping cases.

"Manufacturing Wages, Salaries and Fringe"—this covers wages, major fringe benefits, etc., of our hourly and salaried factory employees. "Other Manufacturing Costs" includes depreciation, maintenance and repair, taxes, fuel, light, water and power, supplies, sanitation, technical services, etc.

Our "Outbound Freight" includes all the freight costs to deliver our products to our customers and in the case of our pool cars a distribution charge in involved.

"Advertising & Promotion Costs"—all advertising, television, print and radio, display material in stores, restaurant dispensers, consumer and institutional recipe service, home economic services, package inserts, coupon costs and redemptions are included here.

Our "Selling Expenses" cover total costs of our salesmen's salaries and travelling costs, branch office rentals, salaries of the office ladies, stationery, and all salaries of our head office sales, marketing and clerical staff.

Our "Administrative & General" expenses includes the salary of all remaining administrative and general office staff, computer rental, office supplies, legal expenses and donations.

Co-Chairman Senator CROLL: Mr. Urie.

Mr. URIE: Mr. Robinson, I wonder if I might review with you the statement you have just gone over with us. Other witnesses before us have been asked to provide dollar sales, and I wonder do you have those figures in dollars for your gross sales during the period 1958-1965.

Mr. ROBINSON: I do not. I can supply you with the figures for 1964 and 1965 only.

Mr. URIE: Can you give us 1964 and 1965 now and supply the others later?

Mr. ROBINSON: May I ask a question? The information being asked for, will we receive a written request for this or shall I keep a note of it here?

Co-Chairman Senator CROLL: We will request it, but you also keep a note of it.

Mr. ROBINSON: Our gross dollar sales for 1964 were $25,845,000, and for 1965 they were $26,600,000.

Mr. URIE: Thank you. Now if I might just take you to your various cost items and point out that since 1958 in some cases and later years in others all of your costs have gone down. Let us look, for example, at 1963 for your grain ingredients, or as you said it yourself, grain and other ingredients, and your costs in that year were 21.55. If I am wrong in any of this, correct me. In 1963 the percentage grain and other ingredient cost was 21.55 and in 1965 it was 20.32. The cost of packing materials has gone down from 11.91 in 1958 to 9.26 in 1965. Apparently your manufacturing wages, salaries and fringe benefits achieved a higher percentage in 1962 when they represented 17.03 but now represent 14.21. That also shows a reduction. In "Other Manufacturing Costs" you seem to have achieved a higher level in 1962 at 7.31 per cent. Similarly with all other items with the exception of advertising and promotion costs.

Can you explain to members of the committee how these reductions have been achieved? Was it as a result in part, at least, of your increased advertising promotion, to which I shall return in a moment, or are there other factors involved?

Mr. ROBINSON: There are a number of factors involved. We feel the success of our advertising and promotion efforts over the years has made it possible for us to increase our business, and as a result to contain some of these costs that might otherwise have got away from us. You refer to grain and other ingredients being lower in 1965 than in 1963. This is certainly true and I would suggest—

Mr. URIE: They were not very different from what they were in 1958.

Mr. ROBINSON: They are higher than they were in 1958. 1963 and 1964 are higher. Those were very tough years for sugar prices, and I think the increase experienced in those years would basically be as a result of that.

Mr. URIE: What about the other items, Mr. Robinson? Would it be correct to say, Mr. Robinson, that your volume incentives, free goods and allowances are given for purposes of encouraging your customers to promote the sales of your products?

Mr. ROBINSON: I think that would be a fair appraisal, yes.

Mr. URIE: In so doing, in giving these incentives, do they, in fact, contribute to a lower ultimate price to the consumer, from your personal knowledge or from the research facilities available to you?

Mr. ROBINSON: I would say, "Yes"—and let me expand on this a little.

In our business—as I am sure it is in any—one of the greatest problems we have is communication; and I guess that is true right through our business. Communication to our own people sometimes seems difficult. I think here of the opportunities that are available to a manufacturer by being able to communicate to a large number of retail stores by their salesmen making a contact with one person. For instance, these co-operative displays that we speak of. I do not know what it would represent in dollars and cents if we had to have salesmen trying to cover the thousands of stores involved. I cannot frankly tell you how many men it would take to do this, but by the methods we use we are able to communicate quite clearly with the stores.

You asked: Does it help the consumers? To that I would say, "Yes." In our business we have one real problem. Let me perhaps set the stage for this, Mr. Urie. Many years back, when I was a youngster, our groceries were purchased pretty much on a daily basis. You would come home from school and be sent off to the corner store to buy this, that or the other that might be necessary for the preparation of an evening meal. I suggest this has been long gone. From my own experience I make one trip on a weekend, Friday or Saturday, at which time I purchase the requirements I feel are necessary for my family. When I was a youngster there was an icebox in the kitchen which would not store the type of products that need to be stored now. Now we have refrigerators. I think these shopping habits have changed; and, of course, everyone in our business would probably substantiate this. The greatest problem manufacturers have is the providing of adequate merchandise at the retail level at the time the consumer is wanting to purchase it. I am talking about the "out of stock" that exists on a given commodity. Some items and package size you want are not available. We know from research given to us that, certainly, if an 8-ounce package of cornflakes is not available for your purchase you might—say I say "might"—pick up a 12-ounce package of cornflakes or a competitive product. We know from the research we have available to us that 30 per cent of people will walk away from that shelf without a purchase at all.

Does the store benefit? I would say yes. First, we are able to put extra merchandise at the retail level. It is displayed at a price lower than the average, or, rather, lower than the regular price.

Perhaps I might demonstrate that with some of the grocery tear sheets we have sent to us by our salesmen. Here is one from the Sobey stores in the Maritimes, from our salesman in Truro, Nova Scotia. They list Kellogg's cornflakes and Rice Krispies, mix-or-match price three for $1; this saves the consumer 14 cents. Here is another, from the I.G.A. stores in Halifax, 16-ounce cornflakes, 35 cents; and the regular price is 43 cents. Dominion Stores in Toronto, cornflakes at a special price. Loblaw's, cornflakes the same way. Winnipeg, Tom Boy Stores, 12-ounce Kellogg's cornflakes, two for 59; this would be a regular 66 cents purchase.

Mr. URIE: These are all available at a lower price, you state, because of the fact you have the free goods, allowances and volume incentives, and so on, which come to a total of something like 2.58 per cent of gross sales?

Mr. ROBINSON: I would think this contributes to it, certainly.

Mr. URIE: Would it be fair for the members of this committee, in determining what the total cost of the promotion of your products is, to add the 2.58 per cent to the 14.17 per cent which is listed as your percentage of gross sales for advertising and promotion costs?

Mr. ROBINSON: We sort these out. We consider these promotion expenses as an in-store promotion expense, whereas our regular advertising and promotion expenses are beamed entirely at the consumer.

Mr. OTTO: And the packaging?

Mr. URIE: No, that is 9.26 per cent.

Mr. OTTO: What portion of that is again advertising promotion?

Mr. URIE: Could you answer that question, please?

Mr. ROBINSON: Could I have the question again, please?

Mr. OTTO: What portion of the packaging cost of 9.26 per cent could also be added to your promotion and advertising costs?

Mr. ROBINSON: This is simply the packaging material cost. This is the carton board we purchase to manufacture our own cartons, the inner bag material and cases we ship out. This is the 9.26 per cent of our sales that is listed here.

Mr. URIE: If I could go back to the question as I put it, for one moment. Would not it be fair to say that no matter at whom the promotion is directed, the total cost of promotion which must be included as an item of cost in your determination of prices you sell to your customers at would be a total of 2.58 per cent for volume incentives, free goods and allowances, plus 14.17 per cent for advertising and promotion, and an indeterminate amount for the advertising effects of an attractive package?

Mr. ROBINSON: I would not think so. These two areas are designed to do basically different jobs.

Mr. URIE: I realize that, but no matter what they are designed for, they do in fact add to the total cost of the package, the total of the two—namely, 17.84 per cent—is that not true.

Mr. ROBINSON: I would say the total of promotion certainly adds to our total cost of the package and our manufacturing or cost of doing business.

Mr. URIE: Bearing in mind your costs in just two of these have gone up and the costs in all other items have gone down, what is your comment with respect to the fact that since 1958—which was the highest year for net profit your company has shown on this history—until 1965, when your net profit before taxes was 23.28 per cent, as I see it, and after taxes 11.31 per cent—may I have your comments on the fact that all costs, apparently, have declined as a percentage of gross, with the exception of advertising and promotion, which have risen as a percentage of the gross? Your net profits, in the meantime, have risen. What comments have you to make on that analysis of your financial statement?

Mr. ROBINSON: In our comparisons we have used 1958—which you suggested is the highest figure, other than 1965, as it appears here, and certainly, in this particular period, this is true; but 11.81 per cent is not necessarily the highest profit ratio that has been made in years past.

Mr. URIE: But your net profit, before taxes, last year was the highest it has been since 1958—namely 23.28 per cent and, after taxes, 11.31 per cent. That is for the purpose of the record.

Before I leave you, I would like to ask one or two questions about the corporate structure. I know many others will be asking many questions I would like to ask about advertising, so I will leave that for the moment.

Mr. Robinson, I take it your company is a wholly-owned subsidiary of your American parent?

Mr. ROBINSON: Yes, we are a wholly-owned subsidiary of the Kellogg Company in Battle Creek, Michigan.

Mr. URIE: Do your gross sales and net profit figures appear as part of their consolidated figures in their published balance sheets and financial statements?

Mr. ROBINSON: Yes, they do.

Mr. URIE: Would it be possible for you to tell the committee from memory the total amount of sales of your parent company in the year 1965?

Mr. ROBINSON: Our world-wide company experienced sales of $366 million.

Mr. URIE: I see, and what was the net profit derived from those sales?

Mr. ROBINSON: $35,248,000

Mr. URIE: What does that work out to as a percentage? It is about 10 per cent or a little under, is it not?

Mr. ROBINSON: Yes.

Mr. URIE: Presumably a great many of the research facilities which are available in your parent organization are made available to your company?

Mr. ROBINSON: Certainly.

Mr. URIE: And advertising—spill-over advertising, or whatever you wish to term it?

Mr. ROBINSON: Yes.

Mr. URIE: Do you pay anything to your parent company for any administration or licensing, or anything of this nature?

Mr. ROBINSON: Yes, we do.

Mr. URIE: Is that calculated as a percentage of sales, or is it a flat fee, or how is it calculated?

Mr. ROBINSON: It is a percentage of our net sales dollar.

Mr. URIE: In 1964 and 1965 what sums of money did you pay to your parent company for these various items, and what were those items?

Mr. ROBINSON: I cannot give you the exact dollars, but it was 1 per cent of our net sales dollar which was provided for research. That amount can be calculated.

Mr. URIE: That would be 1 per cent of $26,600,000?

Mr. ROBINSON: No, of the net sales.

Mr. URIE: You have to calculate the net sales, and then take 1 per cent of that figure?

Mr. ROBINSON: That is correct.

Mr. URIE: That would be roughly $200,000? My colleague informs me that it is roughly $240,000.

Mr. ROBINSON: That is what the slide rule tell us, sir.

Mr. URIE: Those were the fees that you paid to your parent company exclusive of dividends which might have been directed to them arising out of the net profits that you derived from sales?

Mr. ROBINSON: Correct.

Senator THORVALDSON: What was that figure again?

Mr. URIE: $240,000 approximately in 1965. Does your company in Canada own any subsidiaries, either wholly or partially?

Mr. ROBINSON: No, sir, we do not.

Mr. URIE: Do you have any interest in any primary producers of wholesalers, or chain stores or any retail outlets of any kind?

Mr. ROBINSON: No, sir.

Mr. URIE: Do you have any interest in any advertising agencies, radio station, television stations or anything of that nature?

Mr. ROBINSON: No, we do not.

Mr. URIE: Those are all my questions for the moment, Mr. Chairman.

Mr. ALLMAND: Mr. Robinson, with respect to the item "Grain Ingredients" in your table I wonder if you could give us a breakdown as to how much of that is actually grain that you buy before processing, and how much is processing. When you described the production of corn flakes you described a rather complicated process whereby you finally get the grits and so forth. I would like to know what the actual grain cost is, and how much the processing of the grain costs. Can you give us that information? I think your grain ingredients in 1965 amounted to 20.32 per cent, and that includes the grain after processing; is that correct?

Mr. ROBINSON: This is just the cost of the material. It does not include the processing.

Mr. ALLMAND: It does not include the processing?

Mr. ROBINSON: It does not include processing.

Mr. ALLMAND: Where do you have the processing in here? Under what item is the processing?

Mr. ROBINSON: That would be part of our—I trust I am correct here—other manufacturing costs.

Mr. ALLMAND: I see. So, the process you described in your brief—the process of changing the raw corn into the processed corn flakes—would be covered under "Other Manufacturing Costs" for which the figures is 5.85 per cent, and the cost of the actual corn would be 20.32 per cent?

Mr. ROBINSON: "Grain Ingredients," as I indicated, was improperly defined. It should be "Grain and Other Ingredients". Our total ingredients are the grains, the sugar and the other elements we use in the manufacture of our products.

Mr. ALLMAND: In order to give a clear picture to the consumer, since this committee is supposed to have an educational effect, can you give us for an 8-ounce package of corn flakes—which is the example you used in your brief—the price at which you sell that 8-ounce package of corn flakes, and then the price in cents of the corn, the processing, and the packaging so that we can see how many cents we are paying for each element in that package of corn flakes. Could you give us that information?

Mr. ROBINSON: I do not know if I can provide it in complete detail, but I will attempt to answer it as best I can.

Mr. ALLMAND: That is fine.

Mr. ROBINSON: Let us talk about corn flakes, and this is the item I am talking about. I am sure everybody is familiar with this finished product. (*Indicating a small package of corn flakes*)

Mr. ALLMAND: How many ounces is in that package?

Mr. ROBINSON: This has ¾ of an ounce in it. I have brought this as an exhibit of the corn flake package. This is pretty well where it all starts. (*Indicating a cob of corn*)

Co-Chairman Mr. BASFORD: Not with that particular piece, I hope.

Mr. ROBINSON: You will forgive the shape of this particular ear of corn. I have it here purely as an example.

Senator THORVALDSON: That does not appear to be very fresh.

Mr. ROBINSON: There is a vacant space at the back of where I live, and the gentleman who owns it saw fit this year to plant it in corn. I do not know whether he did that because I happened to live there, or in spite of that fact, but I have a cornfield at the back of my yard, but it is one in which I have no other interest except that of watching the corn grow.

This corn, when it comes to us, does not come on the cob as you see it here, but rather removed from the cob. It arrives along with pieces of wire, straw and other foreign material, which we first have to remove from it before we start our processing. This corn comes to us with a 15 per cent moisture content. 15 per cent of it is water for which we have just no use, and it has to be extracted before we can proceed.

Let us take a bushel of corn. Perhaps I could have someone work with me on the arithmetic. A bushel of corn is really 56 pounds, and after we take the 15 per cent moisture content out of it—which represent about 8½ pounds—we are down to 47½ pounds of corn. I have already indicated that a good deal of the corn cannot be used in the production of corn flakes—the germ and the hull. If I may talk about the most recent period, the early part of this year, I would say that our yield of grits from corn was about 40 per cent. I would suggest that that is generally lower than the amount we normally experience, but we ran into a bad batch, and consequently 40 per cent was the best we could do this year.

We find now that we have something less than half of what we started out with—in fact substantially less than half; we have about 19 pounds of useable corn grits. The average price we are paying for corn is $1.73 a bushel. I appreciate that this is not the price that the farmer gets for it, but it is the price we pay, and that would work out to between 8 and 9 cents a pound. The present selling price of our corn flakes in a 16-ounce package works out to 2.04 cents per ounce, or about 32 cents a pound.

I am afraid I cannot tell you what is involved in the packaging, other than to say that taking the corn in the grit form that we use for making corn flakes we must then flake it, flavour it, toast it, package it and distribute it.

I do not know whether I have answered your question satisfactorily or not, but I have given you all the information I have. I do not have a breakdown of the costs in the manufacture of corn flakes.

Mr. ALLMAND: I wonder if you could file with the committee a statement with respect to, let us say—is the 8-ounce package the one that is sold most often?

Mr. ROBINSON: No, it is not.

Mr. ALLMAND: The 16-ounce package?

Mr. ROBINSON: I would say it is the 12-ounce package. There is a great shift going on between the three sizes.

Mr. ALLMAND: Let us take the 12-ounce size. Can you give us a breakdown of the price at which you sell your 12-ounce package to the retailer, and then a breakdown of your costs in cents, including your profit, so that we will be able to see in a very simple form for how much you sell those corn flakes and how many cents you pay for the corn, the processing, packaging, etc. I know you have given this to us in another form in your table, but I think it would also be helpful to us in this form.

Co-Chairman Senator CROLL: What is the cost of the contents of this package of corn flakes, the value of the contents alone?

Mr. ROBINSON: You mean our value—

Co-Chairman Senator CROLL: The cost to you.

Mr. ROBINSON: I am afraid I cannot tell you, I do not know exactly what it costs to manufacture corn flakes now or to produce a pound of corn flakes.

Co-Chairman Senator CROLL: What did it cost you before you sent it out? What is the cost of the contents, the packaging, and what you sell it for?

Mr. ROBINSON: I think this is what the gentleman who asked the question had in mind. I do not have it broken down, but it can be obtained.

Co-Chairman Mr. BASFORD: Is it not 20.32 of the price of that selling package?

Senator THORVALDSON: For a twelve-ounce package.

Mr. ROBINSON: For the raw materials alone?

Co-Chairman Mr. BASFORD: The cost of the ingredients.

Mr. ROBINSON: 20.32 is our total cost of all ingredients, and I do not think that necessarily would apply to corn alone. I think our grain ingredient cost, because of the price we pay for rice, for example, would tend to distort this figure for corn flakes.

Mr. ALLMAND: That is the cost of ingredients for all your products?

Mr. ROBINSON: For all ingredients.

Mr. ALLMAND: That is why I would like that information just for corn flakes alone so that we can see the breakdown in the one product.

The next question is: What is the difference in profit on these small packages compared to bigger packages. I know you sell the small packages to a grocery

store in a package of ten varieties, and also sell a lot to restaurants and hotels. What is your percentage profit on these small packages compared to the regular-sized packages you sell—say a twelve ounce package?

Mr. ROBINSON: I can't answer that specifically. I would say that the package you refer to, the variety package, would tend to be higher, because there is considerably more handling and packing involved.

Mr. ALLMAND: A higher profit?

Mr. ROBINSON: No, higher costs.

Mr. ALLMAND: Could you give us the comparative percentage of profit for these small packages compared to your twelve-ounce package for corn flakes?

Senator THORVALDSON: That is a luxury package you are referring to?

Mr. ROBINSON: It is produced and marketed for a purpose. From the restaurant standpoint this is the most sanitary way in which our type of product can be handled. It can be provided in most cases—the Chateau is one,—they put it right in a bowl so that you know this is a fresh product. It plays a part for couples, perhaps elderly people who find that an eight ounce or twelve ounce package is too much. They like variety, such as corn flakes today and Rice Krispies tomorrow.

Senator THORVALDSON: The ordinary family that is interested in keeping their food costs down would not be likely to buy much of that.

Mr. ROBINSON: That is right. I would say this is a more costly way to buy.

Mr. ALLMAND: On page 7 of your brief you show an index based on your prices from 1958 to 1965. I see that this is for a composite package. Does that mean no particular cereal?

Mr. ROBINSON: Let me explain. This is the total pounds of food that we packed for the year extended or projected in an eight ounce package—the total number of pounds divided into the total dollars of sales.

Mr. ALLMAND: So it is a composite price.

Mr. ROBINSON: It is a composite price of all products which we manufacture.

Mr. ALLMAND: Would the same example I have already asked you about, the twelve-ounce package of corn flakes, apply? I asked you the cost for this year, 1966. Could you give me the history of that twelve ounce package?

Mr. ROBINSON: I can do it now if you wish. I have a document, Mr. Chairman. What is the procedure?

Co-Chairman Senator CROLL: I will place the document on the record. We have some copies and they will now be distributed.

KELLOGG'S PER OUNCE PRICE

	Corn Flakes			Rice Krispies			Special K		
	8 oz.	12 oz.	16 oz.	6 oz.* 5½ oz.	10 oz.* 9½ oz.	13 oz.	6½ oz.	11 oz.* 10½ oz.	15 oz.
1958	2.08	1.94	1.82	2.87	2.63	2.50	3.71	—	—
1959	2.08	2.01	1.82	2.87	2.71	2.50	3.71	3.57	—
1960	2.08	2.01	1.82	2.87	2.71	2.50	3.71	3.57	—
1961	2.18	2.01	1.92	3.18	2.71	2.62	3.97	3.56*	—
1962	2.18	2.01	1.92	3.18	2.71	2.62	3.97	3.56	—
1963	2.18	2.11	2.00	3.25	2.85	2.72	4.16	3.67	—
1964	2.29	2.19	2.04	3.34	2.94	2.76	4.30	3.70	—
1965	2.29	2.19	2.04	3.34	2.94	2.76	4.30	3.70	—
1966 (Aug. 1)	2.29	2.19	2.04	3.34*	2.94*	2.76	4.30	3.70	3.57

Mr. ROBINSON: This document shows the ounce price of corn flakes, Rice Krispies and Special K in each of their three sizes from 1958 to 1965. I think

perhaps this chart might serve a dual purpose. First, it will outline to you the question of what has happened to cost per ounce in each of the respective packages, but also might show the reason why we feel that three packed sizes of these products is important.

If I might start with Special K, this product was first introduced in Canada in 1957, when we only had one package size. The following year this product really probably one of the greatest success stories in the cereal industry. It met with splendid consumer acceptance and has continued that way ever since. It received its fair share of the market, and in 1959 this second package size was introduced to satisfy a further need. You can see from the chart the price for the various sizes.

Let us take the table all the way through. I think it is important to note that in 1958 our price of this product was 3.7 cents, and in 1966 that same product packaged in a fifteen-ounce package was 3.57 cents, available in the fifteen ounce size at a lower cost per ounce than it was in 1958 in its initial package size.

The same can be said for Rice Krispies. Here all three sizes were available back in 1958. But let us assume that someone was purchasing Rice Krispies at that time in the 5½ ounce size. Our cost to the trade at that point was 2.87. Today the thirteen uonce size is 2.76. I think the consumer has been very quick to recognize the savings in the buying of the product in a larger size, and our sales indicate this. Twenty years ago it was an eight-ounce package, and while the eight-ounce still represents a substantial proportion of our total business, it is the third most important size under present conditions.

Co-Chairman Senator CROLL: Does that apply to just the three cereals?

Mr. ROBINSON: It applies to all our products. We recognized and appreciated the comments passed along to us from our customers from the consumer groups and a number of the trade, who felt that it would be most desirable if we could get rid of these half ounces. When our 1964 packaging change evolved, we eliminated all but three fractional ounce packages. Currently we have Special K which is 6½ ounces. We have Sugar Frosted Flakes with 10½ ounces and 14½ ounces.

Our packaging studies that we talked about earlier, which we hope will materialize in 1967, should see all of our products marketed in even ounces.

Senator CARTER: When you changed your Special K from 10½ to 11 ounces, why did you not make it 12, to make it comparable to the others?

Mr. ROBINSON: I have here the 11-ounce package of which you speak. This is it. This 11-ounce package is identical to the 12 ounce cornflake package, but the products being of different densities, the package weight of Special K is only 11 ounces, though it is exactly the same size as the 12-ounce cornflakes package.

May I take that one step further? Our 13-ounce Rice Krispies package is exactly the same size carton but on account of the density of the food being different these packages accommodate 11 ounces of Special K, 12 ounces of Corn Flakes or 13 ounces of Rice Krispies.

Senator CARTER: The impression on the consumer is that she sees a smaller size package and she automatically infers the contents are smaller. She is not too much interested in 11 ounces as compared with 12 ounces. After all, you are selling weight, not volume, not cubic content.

Mr. ROBINSON: These boxes, in a well organized cereal section, are not side by side. The pounds weight of the package is most clearly identified in the upper right hand corner, most adjacent to the place which we hope would be most used by the price marker. There the price and the ounces are for the consumer who wishes to compare.

Senator CARTER: Are you saying that because of the lower density of Special K you can use that 12-ounce package without changing?

Mr. ROBINSON: Without buying additional packages. If we were to try to package Special K in a 12-ounce package it would mean a completely new package size and a completely new packing equipment, it would lower the efficiency of the equipment we have and invariably increase the cost.

Mr. ALLMAND: On page 11 you describe the change-over in the package form, so that it would stand up more easily on the table. You found a 10-ounce package would fall over and you changed over to a wider package? So that we may know what the cost of this type of convenience was, could you tell us what the change-over in 1964 cost, changing the size of packages at that time to suit this convenience?

Mr. ROBINSON: Really, the changes I talked about did not cost more, they cost less. The utilization of carton board, the quantity of carton board necessary with the new design, used less.

Mr. ALLMAND: How much did the change-over cost?

Mr. ROBINSON: All that was involved here was change in the blocks on our packing line. I could not give you the exact cost.

Mr. ALLMAND: Is it negligible?

Mr. ROBINSON: Over the years, in the volume of production, I would certainly say it was almost negligible.

Senator THORVALDSON: Whatever the capital cost of making change, that was saved over the years by reduction of cost, isn't that so?

Mr. OTTO: I understand from your brief that you are a great proponent of advertising and promotion.

Co-Chairman Senator CROLL: He said, for breakfast food.

Mr. OTTO: The money spent in your case over the years, $4 million on advertising promotion, is made up by lower unit costs to you and therefore is of benefit to the consumer. Would that be correct? Is that your position?

Mr. ROBINSON: I would think so, yes.

Mr. OTTO: Let us presume that there are four or five other competitors. Is it also true that they are spending an equivalent amount for promotion advertising, or something near the amount?

Mr. ROBINSON: I am afraid I cannot answer that. I do not know what their expenditures are.

Mr. OTTO: Just in general principle, do you not think that Post or other manufacturers making cereals are spending money for advertising promotion, hoping to gain a part of the market or increase their market?

Mr. ROBINSON: I think that would be reasonable, yes.

Mr. OTTO: So, by and large, the industry—let us speak specifically of the cereal industry—is spending possibly 14 per cent, possibly a little higher, for advertising promotion, and everybody is spending the same amount. One will be successful and one will be less successful. Therefore, your success in your promotional advertising is based on how much of the market you can command for your company, for Kelloggs. In other words, if you are successful in your promotion campaign, as you specifically point out in the case of Special K, then you will have gained some appreciable portion of the general market for cereals?

Mr. ROBINSON: Let me state my company's position as it applies to this marketing situation, Mr. Otto. We feel, and feel sincerely, that the potential growth of our company lies in the broadening of the total consumption of ready-to-eat cereals and as a result we will get our share. We do not in any way direct our advertising as competitive advertising, if I can say that. We are interested in expanding this total market and we hope that as this market expands, plus the success of our advertising program, we will get our share of this business.

These new products that have been injected into the market have played a vital role in doing just this. Since 1958 there have been some 28 new brands of cereals on the market and these new brands represent 18.5 to 19 million pounds. I do not mean to suggest that all the volume from a new product is represented by growth. That would certainly be desirable to us and I am sure to all of our competitors. It is not the case. A good portion of the new products buying is new business. We introduced a new product in recent times called Apple Jacks, a combination of apple and cinnamon flavour. This new product has penetration, we feel, into homes which before perhaps were not using a ready-to-eat cereal.

Mr. OTTO: Now, Mr. Robinson, I appreciate your position and I know that you would like to see the cereal market expanded to the stage where everyone would eat Kellogg's cornflakes or Special K for breakfast, lunch and dinner, as they are doing with some cereals. Nevertheless, if you expand the market in dry cereals you will acknowledge that you are taking away from the market of bacon or pancakes or some other table product. In other words, people do not eat twice as much, people do not consume bacon and eggs and other breakfeat foods as well, they do not double their consumption. Is that correct?

Mr. ROBINSON: I suggest that a well balanced breakfast, be that whatever your choice of breakfast may be, should include a ready-to-eat cereal. I do not suggest we are trying to put the bacon manufacturer out of business. I think his product and our product are quite campatible.

Mr. OTTO: Coming back to promotion and advertising. You have said you do not necessarily look to the increase of consumption in your product from your competitors' sales. You say to some extent you want to increase the consumption so that every cereal manufacturer will benefit. I put it to you that, according to the population and the food consumed, there is a limited amount of breakfast foods, including cereals, that will be consumed and therefore the great portion of your advertising and promotion is directed to the consumer who will switch to your product from another cereal product?

Mr. ROBINSON: That I do not think is the basic purpose of our advertising. Our advertising is designed, hopefully, to persuade those people not eating a ready-to-eat cereal to do so. Much of our advertising, some of it, is aimed at consumption at other times of the day. We suggest that a bowl of cornflakes or Special K before going to bed, rather than something that might be a little heavier, is to a person's advantage. There are many avenues here that we can look to for that increase.

Mr. OTTO: I want to keep in the breakfast line. However, take your position, that you want to increase the consumption of dry cereals, regardless of where that consumption or extra sales comes from—I also suggest that every food manufacturer or processor, whether for breakfast, lunch or dinner, spends approximately the same amount of money on advertising and promotion and therefore, if you do happen to be successful with your product, and if you happen to convince people to eat cereals at bedtime or as in-between snacks, some other manufacturer or processor is not selling as much of his product, which was normally consumed at that time.

Mr. ROBINSON: Let me outline to you one of the greatest problems of our industry. My company is not alone in this; most companies in the food business experience this problem to some extent. First we subscribe to a survey taken on a regular basis every three years. This is conducted with a panel of 1,500 households. The purpose of this whole study is to determine who is eating what product, what age groups are eating a given product, and are they urban or rural users.

Many of our products are purely and simply juvenile type products aimed at youngsters. We have been very successful with some of them. However, as the youngsters grow into the teenage category we lose them. I can even speak from

personal experience, since I have two teenage daughters at home. And, if anyone should be prejudiced, if you will, or interested in eating ready-to-eat cereals for breakfast, my two daughters certainly should. However, we have an awful time to get these two young ladies to eat anything for breakfast.

This is not only true of my household, but research indicates that it is pretty much true of teenagers generally. Do not misinterpret what I am saying. I do not mean to say that the teenager has become a rebel. I do not mean that at all. I have every respect for teenagers. But they leave us during the teenage years, and we feel that our advertising on certain products is designed to reach them again once they become married and start having tots of their own. We must say to them: "Now, you will remember this fine Kellogg corn flake cereal that you used to eat at a youngster. It is still a mighty fine product and you should get back into the habit of eating it for breakfast."

Mr. OTTO: I agree with you, Mr. Robinson. I am just trying to expand your point of view rather than just dwelling on dry cereal. What I am saying, in effect, is that you are spending approximately 14 to 17 per cent of your sales dollar for promotion and advertising to direct the consumers to your products, or, in other words, to vary their demand from bologna or candies or fish or eggs, and so on, to your product. Other manufacturers of other processed goods are spending the equivalent amount of money to change and vary the consumers' demand from your product to their product, so that by and large the promotion or advertising dollar is directed towards changing the whole cycle of demand from one supplier to another.

There is a certain amount of food consumed in accordance with the population and income. A certain amount of food is bought. Therefore, if you are successful in promoting the sale of corn flakes at bedtime, then you must be taking away from Ovaltine or milk or some other food that is customarily consumed at that time. Is that correct?

Mr. ROBINSON: I guess I would give you that point, sir, yes.

Mr. OTTO: What I wanted to say, then, in summary, is that if you were the only promoter of food products, I could see your point of view, but, since every food processor or manufacturer uses the same market surveys that you use, or at least the same type, then in reality the 17 per cent that is spent on promotion is spent by all suppliers in attempting to influence the consumer and to vary his demand from one supplier to another.

Senator THORVALDSON: I would not agree with that theory at all, Mr. Chairman, and I do not see why Mr. Otto should make a speech.

Co-Chairman Senator CROLL: We will hear from Mr. Scott, from Senator Carter and then from Senator O'Leary.

Mr. SCOTT (*Danforth*): I wanted to ask you a few general questions first, Mr. Robinson, and then I wanted to put to you some of the complaints that we have received from housewives concerning their purchase of products, and then I would like your comments on them. How many varieties of breakfast food do you produce?

Mr. ROBINSON: We have 20 different types as well as three individual assortments, that is, snack packs or request packs.

Mr. SCOTT (*Danforth*): Can you give us their names?

Mr. ROBINSON: I hope I can: corn flakes, Pep, Krumbles, Rice Krispies, Bran Flakes, Raisin Flakes, Pops—Sugar Pops, that is, Sugar Smacks, All-Bran, Sugar Frosted Flakes, Fruit-Loops, Apple Jacks—

Dr. JAMES: Crispy Critters.

Mr. ROBINSON: Crispy critters seems to be a dirty word in our vocabulary. I think I have named most of them.

Mr. SCOTT (*Danforth*): How many different sizes do these cereals come in?

Mr. ROBINSON: How many different sizes?

Mr. SCOTT (*Danforth*): Yes.

Mr. ROBINSON: We pack three of our products, Corn Flakes, Rice Krispies and Special K in three different sizes of package. Our line of pre-sweetened products, Sugar Pops and so on, come in two different package sizes, and some of the products are in one size of package.

Mr. SCOTT (*Danforth*): Do they all contain basically the same cereal ingredients?

Mr. ROBINSON: Would you rephrase that, please.

Mr. SCOTT (*Danforth*): I said do these basically all contain the same cereal ingredients?

Mr. ROBINSON: The product composition, the formulation?

Mr. SCOTT (*Danforth*): Yes.

Mr. ROBINSON: There are four grains or combinations of grains; then there are flavours, for example, cinnamon and cherry flavours, and this sort of thing.

Mr. SCOTT (*Danforth*): How do you determine this large range of names? For example, what impels you to have so many different varieties?

Mr. ROBINSON: We feel that there is a demand for these different types of cereals. I guess thus far our assumptions have been correct, in that most of these products, with a few exceptions, represent a fair volume to our company and to our customers.

As to the name, if there is one thing that is difficult in our business, I must quite honestly say that it is the development of a name for these new products. Sometimes the new products come much more easily than do the appropriate names for them.

Mr. SCOTT (*Danforth*): What I was trying to get at is that when you initially market a new product under a particular name, you must determine that there will be a demand for the product. On what basis do you make that determination?

Mr. ROBINSON: There are a number of ways that our company can handle this problem. First we can call upon the experience of our company around the world. If our company in Great Britain develops a product that is marketed successfully, there is every reason to assume that such a product will have a place in the Canadian market. Similarly, if our parent company in Battle Creek should develop a new product, there would be every reason to assume that it would be successful here. You can test this in many different ways. There are research organizations where the product is sent out for testing.

We have a product now—it is not a new product but rather a product that we are very high on—which has a direct competitor. Unfortunately, our competitor is just an awful lot smarter than we are with this particular product. The first thing we look at, if the product has a problem, is what is wrong with it. Does it not have the things that the consumer wants? I guess we can assume that it does not, in that we know, from the initial volume we enjoyed, that the consumers have tried it once, but they have not come back to it. Why did they not respond a second time?

We will put that product into a carton and send it out to a number of households together with a properly worded questionnaire. We will ask what is good about the product and what the householders do not like about it.

Perhaps there is some insignificant processing detail that they do not like, or it is too sweet or it is not sweet enough or there is too much bran left on the wheat or there is not enough.

Mr. Scott (*Danforth*): One of the complaints that many of the members are getting from housewives, concerning the breakfast cereal line, is the complaint that none of them are really terribly different. Some are sweet and some have an apple flavour, for example, but apart from that they are not very much different from one another. However, out of the blue a product will suddenly appear and then a barrage of advertising will start on the television, aimed at the youngsters and then, when the housewife gets to the store she finds that in buying the product—and this is the complaint—her children want it simply because "Yogi Bear" is on the cover. She is not buying it because of the quality of the product itself.

The consumers claim that this drives them to distraction. They cannot really see the value in the product. They feel that what your industry does is to manufacture a multiplicity of products and then artificially create a demand among children so that the parents buy because the children have seen something on television which has attracted them to the product, and there is not any real knowledge of the quality of the product itself. Could you comment on that?

Mr. Robinson: Let me assure you that concerning initial penetration Yogi Bear has been a fine salesman. He is no longer on our payroll, but when he was he certainly did a splendid job.

First let me say this: no company in any business can afford to market a product if all he expects from it is that one initial sale. A business just cannot be run in that way. You must put something out there that, in your opinion, based on information and research, is going to be there for a good number of years and be a continuing volume producer for you. We have to be very careful with these new products, we have to see that the quality is right and that all of the other things necessary for successful introduction of the new product are present.

I feel very sincerely that Yogi Bear in his heyday might have been able to sell someone a package once. But no power on earth will sell a consumer that second package, if he is not completely satisfied with the quality of the food that he has purchased the first time. No power can do this.

Mr. Scott: I am not trying to argue. But let us put it this way: What the housewife says you are really trying to do by a gigantic advertising campaign is to create this multiplicity of demands among the children. She says "As far as my children are concerned, as long as they are all sweet, they are happy." What do you to that?

Mr. Robinson: I think the greatest mistake a manufacturer can make is to try to market successfully a "Me too" type of product. This is what I referred to earlier. People, in situations like this, bought the first package thinking it was something new and found it was a similar type to what they had been eating before and so they bought the first package and then went right back to the brand that they had bought previously. So this was not successful and there is no market there, especially if we try just to match whatever somebody else is doing. You have to have better nutrition or a new combination of ingredients to provide a better taste.

Mr. Scott: Another complaint we have met with frequently is with regard to the ounce sizes in which you package your products. The housewife claims, and we can see this from the examples you gave already this morning about the six-ounce, 10-ounce and 13-ounce sizes—the housewife complains she is not able to make an adequate comparison in the price, and she would prefer five, 10 and 15-ounce sizes. Is there any reason why this cannot be done?

Mr. Robinson: Yes, I would think a very good reason. Each of our products is of a different density, and each has to be packaged differently. And because of this they would each require a different size package.

Mr. Scott: I don't quite follow.

Mr. ROBINSON: We package our products so as to keep the packaging costs as low as we possibly can. As a result the more products you can market in one particular package size, the better your chances for keeping costs in line. Here are three examples that may answer your question. Here is our most recent addition to the market, Apple Jacks. There are seven ounces of food in that package. Here is another package with Raisin Bran, the same size carton but it contain 13 ounces. If we want to have a seven-ounce package it will have to be completely different size requiring completely different packing lines which would entail a tremendous investment. Here is a third product in the same size carton—it is All-Bran but in this there are 16 ounces.

Mr. SCOTT: Your people are pretty ingenious in the presentation of your products. Is there nothing you can do to make clear to the purchaser what the relative sizes and prices are per ounce so that there is some method of comparison in price on the ounce sizes? Is there nothing you can come up with which would meet what appears to me to be a valid objection? You can design boxes and advertising campaigns but is there no way to make it possible for a housewife to price accurately the volume in the different types of product and decide which is the best buy?

Mr. ROBINSON: I think we do that by identifying the number of ounces in our package which is shown quite clearly near to thep rice mark. We have made some strides by eliminating the fractions of ounces.

Mr. SCOTT: One last question: I don't know whether the witness received the "Topics for Discussion" issued by the joint committee. No. 11 in that was to select ten major commodities and allocate production, warehousing, sales costs, etc. I wonder if you could do that later on.

Mr. ROBINSON: Up to 1965 our sales have been exclusively cereals, and we assumed that combining these together as one product would be satisfactory.

Mr. SCOTT: If we decided we would like a further breakdown, would you be able to supply it?

Mr. ROBINSON: I would be happy to do so.

Co-Chairman Senator CROLL: Do you want that, Mr. Scott?

Mr. SCOTT: Yes.

Co-Chairman Senator CROLL: Senator Carter.

Senator CARTER: Mr. Robinson, I have two or three questions but I would like at the moment just to pursue one along the line Mr. Scott was pursuing. When you introduced your Special K as a new product, which after all is just another type of Corn Flake, what impact did that have, if any, on your regular line of Corn Flakes? Did your ordinary sales go down?

Mr. ROBINSON: First of all, let me say that Special K is basically a rice product. When it was introduced it did have a minor effect on our Corn Flake volume, but it was not appreciable. From that time on our Corn Flake volume has maintained a reasonably level volume.

Senator CARTER: People did not just switch from the Corn Flake to Special K?

Mr. ROBINSON: I think perhaps in the initial stages some people switched from Corn Flakes to Special K, but I think we got enough new people convinced to eat Corn Flakes that any switching that took place was compensated for.

Senator CARTER: You say in your brief that you operate on a nationwide basis.

Mr. ROBINSON: Yes.

Senator CARTER: Can you tell us what percentage of the national market you supply? That is the percentage of the total volume consumed. What percentage is taken by your line of products?

Mr. ROBINSON: We enjoy in the neighbourhood of 50 per cent of the total market.

Senator CARTER: In Canada?

Mr. ROBINSON: In Canada.

Co-Chairman Senator CROLL: Who enjoys the balance of the market?

Mr. ROBINSON: This is shared between General Foods, General Mills, Nabisco and Quaker.

Co-Chairman Senator CROLL: Have you any idea of the breakdown for them?

Mr. ROBINSON: I would not want to quote figures.

Co-Chairman Senator CROLL: An approximate amount?

Mr. ROBINSON: I would hesitate to break that down.

Senator CARTER: Mr. Robinson, in distributing your products you have two methods. The first is direct to the retailer and the other is direct to jobbers; is that correct?

Mr. ROBINSON: We sell only to the wholesaler and the jobber or in the case of chain stores to a central warehouse. We do not distribute any product on a store-door delivery basis.

Senator CARTER: You don't distribute to retailers?

Mr. ROBINSON: Only to wholesalers and to chain stores at a central warehousing point.

Senator CARTER: Do you have the same price for jobbers as you do for wholesalers?

Mr. ROBINSON: Well, there is the carload price for corn flakes—

Senator CARTER: Because the jobber will probably sell to another wholesaler.

Mr. ROBINSON: We sell to wholesale accounts.

Senator CARTER: You have the same price?

Mr. ROBINSON: Yes, a carload of corn flakes to a wholesaler in St. John's, Newfoundland will be the same as to a chain store account in Toronto or Vancouver.

Senator CARTER: The sheet you have submitted shows the prices you charge—are these the wholesale prices to your jobbers?

Mr. ROBINSON: They are.

Senator CARTER: Do you follow your product through to the retailer to find out the situation there?

Mr. ROBINSON: We have a general knowledge of what the retail pricing is. Our salesmen tell us this information any time we feel it is necessary.

Senator CARTER: Do you provide a suggested retail price list?

Mr. ROBINSON: No.

Senator CARTER: On page 25 you made a statement about prizes for promotions. You say they are provided for you at no cost by the manufacturer—the manufacturer just gives them away to you?

Mr. ROBINSON: For the most part, that is true.

Senator CARTER: That does not enter into your cost at all?

Mr. ROBINSON: It does not.

Senator CARTER: How can the manufacturer give these things away? Somebody has to pay for them.

Mr. ROBINSON: I think perhaps one of the reasons that might influence the manufacturer of a given commodity to provide "X" number of them as prizes is that in these contests, in order to be successful, we naturally have to make the

people aware that such a prize is available for a given performance. We do this to a large extent on the back of our packages.

Senator CARTER: Do you provide a service to the manufacturer?

Mr. ROBINSON: We advertise his product or illustrate his product on the back of our packages.

Senator CARTER: In other words, he is paying you for advertising—not in cash, but in actual prizes?

Mr. ROBINSON: It might be considered that. They feel the opportunity to advertise an automobile on the back of a Corn Flakes package has some advantages. Perhaps it presents their product to the consumer in a manner in which it would not normally have been.

Senator CARTER: On page 20 you say that your policy with respect to packaging is that you introduce a product and when it gets up to between 1.5 and 2 per cent of sales you introduce another package; and then, if those sales increase up to 5 per cent, you put in a third package.

Mr. ROBINSON: I do not suggest that is a hard-and-fast rule. I suggest that if the marketing people are interested in marketing a second package size, one of the barometers they use to determine whether or not the market merits a second size is 1½ to 2 per cent for the second size, and then 5 per cent for the third. I do not suggest that any time a product reaches that sort of level it automatically has another size.

Senator CARTER: You told us, in reply to a supplementary question I asked earlier, the reason you use the 11-ounce package instead of a 12-ounce is that you save having to go into the cost of developing a new package. But, apart from that, what determines the contents, the amount you sell?

Mr. ROBINSON: The second package size?

Senator CARTER: Yes.

Mr. ROBINSON: We say that is of paramount importance to us. We would not consider marketing a second package size of a product which would not fit into one of our existing sizes, we would not go out and spend the money necessary to buy a packing line and establish a new package size; it is paramount in our decision regarding the second size.

Senator CARTER: Your standard sizes which you are using now, are they the result of market and consumer research? This little, tiny package, is that scientifically designed as the amount a person should have for his breakfast?

Mr. ROBINSON: I suppose the amount in here would be, for the most part, a normal serving; it is about a bowlful.

Senator CARTER: Is that a guesstimate?

Mr. ROBINSON: We feel in the area of an ounce is right. Any reference I might make to a serving, we generally consider one ounce of our product as a serving. It could certainly vary by the amount of food the individual needs.

Senator O'LEARY (*Antigonish-Guysborough*): What is the closing date of your financial year?

Mr. ROBINSON: December 31.

Senator O'LEARY (*Antigonish-Guysborough*): On the chart we received last, would you complete your prices as of September 1, 1966 for us?

Mr. ROBINSON: Which chart?

Senator O'LEARY (*Antigonish-Guysborough*): You have the August 1 date and there was a price increase on September 1.

Mr. ROBINSON: Yes, I can do that. Reading across the table—Corn Flakes: 8-ounce, 2.50; 2.33; 2.14;—

Co-Chairman Senator CROLL: Just a minute, 2.50?

Mr. ROBINSON: Yes, 2.50; 2.33; 2.14.

Co-Chairman Senator CROLL: Rice Krispies?

Mr. ROBINSON: 3.59; 3.11; 2.89. Special K: 4.55; 3.85; 3.67.

Co-Chairman Senator CROLL: That is, as of?

Mr. ROBINSON: Our price increase was effective September 1. We did allow a month's inventory at the old price.

Co-Chairman Senator CROLL: But that is as of September 1?

Mr. ROBINSON: Yes.

Senator O'LEARY (*Antigonish-Guysborough*): In the year 1962 your net profit, after taxes, was 5.49 per cent. Your advertising and promotional costs were obviously the reason for that reduction in your net over previous years indicated here. These costs were approximately 5 per cent over 1961, and your net was reduced by almost the same figure. Then you did not increase your cost in 1963—you did not increase your cost to the wholesaler or distributor in 1963, even with this obviously rather poor result; but in 1963 you took almost the same 5 per cent and you reduced it from your promotional and advertising costs and came up with approximately the same net gain as you had previous to that. Is there any other reason that you can give us for your decreasing net margin in 1962, other than these higher promotional and advertising costs?

Mr. ROBINSON: Yes, there were other items, certainly, Senator O'Leary. First, in 1962 we completed a substantial addition to our factory. This required a fair amount of additional part-time help, and we changed our factory size and put a piece on the end. All the equipment you are using has to be integrated in this new space. There was a substantial increase in our manufacturing costs, about 2 per cent, in 1962 over 1961.

Senator O'LEARY (*Antigonish-Guysborough*): Then in 1963 the most noticeable increase in any one item was the grain ingredient which cost you about 2 per cent more. As I said, you reduced your advertising and promotional costs, and yet you came out with what I would call quite a satisfactory year; and yet in 1964 you increased your prices. Why?

Mr. ROBINSON: Let me go back and perhaps explain some of the reasons for the high base. It is the only one in this study that is at that 19 per cent level. We were concerned through 1960 and 1961 about the relatively static position of the business. In our company the first time our sales volume starts to experience either a levelling off or a decrease, the first place we go is to our marketing people to see what has caused this. Has it been poor quality of food processed in the plant? Has it been inadequate packaging? Why has this market not continued to respond?

We feel very strongly that our business must at least parallel the increase in population, and our country has been going along at about 1.8 per cent increase, I guess is a pretty close figure; and our business, all of a sudden, became static. We very quickly analyzed all the things being done from the market standpoint, and we made some changes. We used a number of package deals. This was two cornflake packages glued side by side, one selling at the regular price and the other at half price, feeling perhaps the addition of a very attractive price incentive might stimulate the whole industry and stimulate our business, certainly. We had certain market areas, cities or towns, or one of our sales districts where sales increases seemed to be difficult. We tried to stimulate these with additional advertising, and I could say, quite honestly, that when we got all finished that year, considering all these extra things we had done—and the incentives we had provided to the customer and the additional advertising—we started our business ahead but not really the way we would have liked to see it.

I guess we consider our past experiences as most helpful. I do not suggest we look backward, but rather appraise what we have done in the past as to how it might be applied in the future. At that point it was determined or felt that our level of 14.5, or in that area, for advertising and promotion was about the point

at which we should advertise in order to get the maximum for the monies we were spending. We went back to that level in 1963-64, and our business did respond.

With respect to material costs that you asked about, as I indicated earlier that was the result of what we had to pay for sugar in those particular years, and having regard to what the growth factor in our market was and what I guess it continues to be. Those items usually had a high cost in sugar, and that was part of the reason. Since then the price of sugar has become far more reasonable. If you have been following the papers you will have noticed that sugar is at its lowest price now in 25 years. In the meantime other material costs have compensated for what we were saving on sugar.

Senator O'LEARY (*Antigonish-Guysborough*): In 1964 which, as Mr. Urie brought out, was your best year having regard to the fact that you had 23 per cent or 28 per cent before taxes—the only year on the chart here that was larger was 1958, and you did indicate that periods prior to this did carry higher percentages. You did not say what they might have been, but as I see it the increase in 1964, for the reasons that you gave us, was a flat increase of approximately from 3 to 4 per cent on the two items that you give here. You gave us three, but I am taking only two. Now, we find the year 1965 being repeated again, and you must have considered 1965 to be very satisfactory from every point of view. The first item you gave us, for example, was Corn Flakes in an 8-ounce package on which you increased the price by 12 per cent. Does the same answer you gave me for the increase in 1964 hold, do you think, for your increase in 1966?

Mr. ROBINSON: During this year one of the greatest problems we had, and this carried on throughout the first four months of this year, was the poor quality of the corn. Certainly, no one can be blamed for it, but we did receive a poor quality of corn. This is the bread and butter item, if you wish, of our entire business. It was quite substantial.

I have here some of the material prices that have changed since 1965. In 1965 we paid about $1.61 for a bushel of corn, and this year we paid $1.73. In looking to the future, our purchasing people, to the best of their ability, have determined what the crop has been both here and in the United States, and they have calculated that corn next year is going to cost us about $1.93 a bushel, which is substantially above the figure of $1.61 that we paid last year.

Our soft wheat, or Ontario wheat, that we use for bran flakes and most of our flaked products, in 1965 cost us $1.94 a bushel. We paid $1.99 this year, and we expect that that price will be in the neighborhood of $2.04 in the coming year.

Durum wheat—and this is the type of wheat we use for our puffed wheat type of product because it lends itself well to puffing—was $2.94 in 1965. We hope it will average out to about $2.88 a bushel this year, although currently we are paying about $3 a bushel.

Our rice price in 1965 was $9.30 a hundredweight. In the current year it was $9.77, and we are currently paying $10.55.

We are hopeful about this new mill that I spoke about earlier. We are a large purchaser of rice from this particular mill, and one of the problems we have had was in the freight rates from where the mill was located. We are not the only customer of this mill, but by committing ourselves to long range purchasing the mill has been able to move to Windsor where a substantial milling facility is being erected, and we expect our price next year to be about $9.39 if that mill operates with the efficiency everybody is hopeful of.

Our bran purchases cost us in 1965 $53.20 per ton. That price rose to $58.30 per ton, and the current price is $65 per ton. We fully expect that price to be at 60 throughout 1967.

Milk powder which, again, is an important product to us, was $14.30 in 1965. It is now $17.03 and there is now a fixed ceiling price on this of $18.

Senator O'LEARY (*Antigonish-Guysborough*): You have answered my question in this way, that the increases in prices that went into effect on September 1 were based on your actual and anticipated increased costs of ingredients going into your products?

Mr. ROBINSON: I think that is correct. I indicated during my submission that our sales have increased by 10.5 per cent, and our profits, compared to those of the year before, are off 9.6 per cent.

Senator O'LEARY (*Antigonish-Guysborough*): You indicate on the first page of your brief that you have a staff of from 700 to 750. Are all of these permanent, or have you some temporary employees at this time.

Mr. ROBINSON: There are some temporary employees. We, being in a university town, draw on the university students as a source of temporary help in the summer time. Even though our business has levelled out to a great extent from what it was, there is still a summer time peak, and we require a lot of extra help then. We make full use of the labour force that is available to us from the university. These people do not want to work on a permanent basis; they want only to work in the summer vacation in order to earn enough money for the next year's tuition and books and so on.

Let me expand on this and say that it has been helpful to our business. We are most anxious to obtain the services of engineering students, preferably those in their first year of engineering. We have been able over the years to convince these young folks to come back to us each year when they finish their year's schooling. This provides us with a real source of future engineering staff, and it gives us an opportunity over four years to watch X number of these people and see how they adapt themselves to our business. We can determine whether they are interested in it, and whether they are serious about what they are trying to do. It gives us a real source of supply for our engineering staff, and it has worked out very well.

Senator O'LEARY (*Antigonish-Guysborough*): What percentage of your staff would you have on sales, as compared to the percentage in your plant operation?

Mr. ROBINSON: In our total sales force from coast to coast we have about 60 people—57 salesmen, 5 divisional managers, and 2 assistants to divisional managers.

Senator O'LEARY (*Antigonish-Guysborough*): And they are represented by the 60 people you quote as being located outside of the London area?

Mr. ROBINSON: Yes.

Co-Chairman Mr. BASFORD: Mr. Robinson, you said in your brief that you wanted to start off your figures at the year 1958 because up to that year you had already presented figures to the Stewart Commission. That technique is very much appreciated. I should like to read you what the Royal Commission reported in 1960, and then ask you to up-date these remarks in addition to those figures you have already up-dated:

> In our study of the returns to capital in the food industries, we found one situation, viz, the Prepared Breakfast Foods industry, in which the returns to capital have been abnormally high and without any tendency to decrease during the period.

And further:

> The prices of the products have increased over the period sufficiently rapidly to preserve the high levels of profits being earned in the industry. In terms of a fair and reasonable return on capital, there was no necessity for such rapid an advance in prices.

Further on, the commission said:

> The Commission has called attention to two situations in which we think it evident that the public welfare is involved. These situations are

> the Breakfast Foods industry and Chain Store food retailing. The distinguishing characteristics are, first, abnormally high rates of return on equity capital, and, second, abnormally high promotional expenditures expressed as a proportion of sales.

I wonder if you would like to up-date those comments in the same way as you have up-dated the figures in your brief.

Mr. ROBINSON: I do not know that I am in a position to do that, having regard to the number of facts that you have quoted, Mr. Chairman.

Co-Chairman Mr. BASFORD: I am wondering if what the Stewart Commission found in 1960 is what we should find in 1966?

Mr. ROBINSON: We have provided you with all of the information, as it applies to our experience for these years, for your study and analysis.

Co-Chairman Mr. BASFORD: The figures at the end of the brief do not include a return on equity for those years. Are you able to give us those?

Mr. ROBINSON: No, I am not. I can certainly make them available to you.

Co-Chairman Mr. BASFORD: I would certainly appreciate that.

Mr. ALLMAND: I have a supplementary question. I notice that in Canada you make a profit on a sales dollar of 11.31. Do you know what your American parent makes by way of profit on a dollar of sales, as a comparative figure?

Mr. ROBINSON: I do not know what the figure would be for the United States. The only figure that I have available to me is the consolidated statement which encompasses our world wide operations.

Co-Chairman Senator CROLL: What does the consolidated figure show which is comparable to the 11.31?

Mr. URIE: We have the figures before us, Mr. Chairman.

Co-Chairman Mr. BASFORD: I read what the Royal Commission said in 1960, and I want to comment on what they said; but bringing the situation up to 1966 I would like to quote to you from the *Forbes Journal* for October 15, 1966, and get your comment. This is an American publication, and what they say seems to fall exactly in line with what the commission found in 1960. It is dealing with the breakfast food industry, and reads:

> The makers of ready-to-eat cereals spend almost $100 million a year to keep them and a host of mice, geese, raccoons and other creatures—both real and imaginary—coming into practically every home with a television set. In fact, the companies often spend more to promote them than to produce what they sell.
>
> These supersalesmen are worth every cent they cost. For the profits on cereals are enormous. The ingredients that go into a box of cereal selling for 37 cents cost only a few cents. A top-selling brand can net as much as 20 per cent after all the expenses of making and marketing it, including the TV commercials. Not surprisingly, Kellogg, whose business is almost entirely in dry cereal, last year earned a solid 22.6 per cent on its stockholders' money, netting $35.3 million on sales of $366 million. In the past decade, its earnings have increased at an average rate of 10 per cent each year.

If that statement can be accepted it would indicate, as I said, that what the Royal Commission found in 1960, has not changed in 1966.

Mr. ROBINSON: I guess my only answer would be that there probably has not been any significant change from what the findings were back at the time of the Royal Commission.

Co-Chairman Mr. BASFORD: And the Royal Commission found what they thought to be an abnormally high rate of return and abnormally high promotional expenses.

Mr. ROBINSON: These promotional costs, we feel very strongly that they are so vital to our business. Our experience has been that if we discontinue advertising or promotion on a good product it experiences a substantial cut-back in the market, and as your volume is reduced many of your costs are built in, they are still there, and represent the result of an increased unit cost.

Perhaps an example of what has happened to three products where this condition existed may prove of interest.

Co-Chairman Senator CROLL: This paper is entitled "Kellogg Products —Case Volume." Copies are now being distributed, and it will be placed on the record at this point.

KELLOGG PRODUCTS—CASE VOLUME

	"A"	"B"	"C"
1959	20,710*	57,801	184,432
1960	21,470	67,779	91,881**
1961	17,625	63,402*	80,960
1962	10,441	49,060	49,984
1963	10,113	53,601	89,893
1964	8,944	40,020	86,310*
1965	10,958	37,054	54,471

* Advertising discontinued year-end.
** Advertising weight reduced 50%.

Mr. ROBINSON: These are three Kellogg products where the advertising against them was discontinued. The first one, Product A, the advertising was discontinued in 1959, when we were handling a volume of 20,000 cases of Kellogg's Krumbles. The volume in 1965 was just half of that that we experienced in 1959.

Product B is Kellogg's Pep, wholewheat flakes. Advertising for this product was not discontinued until 1961, and you can see the experience there, where the volume shrunk from 60,000 cases in 1961 to 37,000 cases last year.

Product C, Sugar Smacks, I think perhaps is indicative. In 1959 was our introductory year and was partly the reason for the 184,000 cases. The second year we cut our advertising by 50 percent, so that is exactly what happened to our volume. We discontinued our advertising in 1964, and you can see the result of 54,000 cases.

I think that perhaps that is a good example of what can happen to a product's experience when this continual message of advertising is not continued.

Co-Chairman Mr. BASFORD: These being predictable results, why was the decision made to discontinue the advertising?

Mr. ROBINSON: We had a number of products in our line, and we felt there was only room in our scheme of advertising and promotion to accommodate those which might have greater potential, although certainly some of the volumes that were enjoyed here were substantial.

Co-Chairman Mr. BASFORD: As opposed to those three products the advertising of other products all have gone up?

Mr. ROBINSON: That is possible. I think when we look at advertising dollars, absolute dollars or advertising dollars as a percentage of net sales we feel that as a company there is a danger here. Because really what is an advertising dollar designed to do? It is to carry a message to a given number of people a given number of times. Some of our products are juvenile oriented and the type of media that can be used to reach the youngsters is not as costly as night-time television that necessarily has to be used to sell a product that is aimed at the

adults. The frequency and reach of the advertising message is the all important barometer, I think, that must be considered. We do just this on our advertising programs—we try as best we can; and from the research we have to determine what segments of the market is a product going to respond in. Where are those people? How old are they? Are they in the city or in the rural areas? Then we design a program that will reach those particular people the number of times we feel it necessary to firmly implant your message.

Co-Chairman Mr. BASFORD: As opposed to this statement showing that the discontinuance or reduction of advertising of those given products results in the way your statement indicates, your advertising and promotion costs percentage to sales has not varied much really, except in 1963 when it had gone down.

Mr. ROBINSON: There is a change within the product mix certainly. I think one of the contributors certainly is the new products, and as these come along, an individual product, something completely unknown, necessarily requires a far greater initial weight to let people know that there is something new available to them in their stores; and of course our experience has been that there are very few years go by where there have not been at least one new product introduced each year.

Co-Chairman Mr. BASFORD: You have a supplementary question, Mr. Scott?

Mr. SCOTT (*Danforth*): The table you have just given us seems to conflict with something I understood you to tell me earlier, but I do not want to draw impertinent conclusions. When we were discussing the promotion of new products and the wide range of cereal products you told me that advertising essentially was to get the buyer to buy the first time and that then the quality of the product, its taste, and so on, did the rest. The table would indicate that unless you kept pounding at the advertising you would not get results.

Mr. ROBINSON: I did not say so directly. I suggested that the weight of advertising would sell the first package, and that the product must be one of quality or they won't buy it again. I do not suggest that once you have sold the first package you can forget it. I rather suggest that constant pressure is necessary, a continual reminder of the products that you have for sale.

Co-Chairman Mr. BASFORD: Do you agree with the statement of C. W. Post, the founder of one of your competitors:

> You can't just manufacture cereal. You've got to get it half-way down the customer's throat through advertising. Then, they've got to swallow it.

Mr. ROBINSON: I do not think I would agree with what he said quite in the way that he said it. I suggest that you have to produce a palatable high quality product and let the people know that this is a high quality product.

There is something I think I should mention at this point. We talk about the advertising of our product. Certainly, this is what advertising is designed to do, to sell a particular product. But over the years, and this goes back a long time before my time in the food business, a certain corporate image or corporate reputation has been established.

I had experience here just last week of being exposed to a new product that I understand is in the test market stage—and I think London has been selected as the test. There was a product known as Start. I did not know what the product was. Certainly, the name Start did not exactly excite me. But when I saw that this product was manufactured by General Foods, I said to myself: "There is a product that is high quality, the kind of product I would want my family to have."

If I saw a display of cheese in a store, not identified by a manufacturer's brand, I might not buy it, but if I saw the Kraft label on it I would know I have got quality. The reputation has been built. A reputation is something that you

cannot borrow and you cannot buy, you have to build it. You can only do this by providing products that are of quality and with which people will be satisfied. They know when they see a package of cereal that that product is made by our company, they know we stand behind it 100 per cent. I think our reputation and the reputation of many food manufacturers plays a very important part in the consumer acceptance of the particular food.

Co-Chairman Mr. BASFORD: In fairness to you, Mr. Robinson, could I go back and say that I read into the record what was a comment on a situation in 1966, which described the profits in the industry as enormous and said:

> Not surprisingly, Kellogg, whose business is almost entirely in dry cereal, last year earned a solid 22.6 per cent on its stockholders' money, netting $35.3 million on sales of $366 million. In the past decade, its earnings have increased at an average rate of 10 per cent each year.

I go back in case there may be a misunderstanding on the record. I do not know whether you want to comment further on it.

Mr. ROBINSON: I have no further comment.

Co-Chairman Mr. BASFORD: You now participate in co-operative advertising with your customers?

Mr. ROBINSON: We do not buy the co-operative sales as such. That is, the package units, if I might refer to them as such. We do not purchase these from our accounts. We provide a sum of money, through our volume incentive plan, and it is based purely on the percentage of our total business that each account represents. If we ask that these dollars be directed for in-store displays, featured prices, generally in support of a promotion, a corn flakes contest promotion, we expect it is one which is going to obtain consumer interest, and we would suggest at that point that corn flakes should be featured and this is what is done.

Co-Chairman Mr. BASFORD: On the basis of sales, you set aside a fund that is available for co-operative promotional deals, if I might call them that?

Mr. ROBINSON: Along with these, during the year we will provide a free goods and allowance arrangement, which can be 50 cents a case for a given period of time, or one case free with ten. We would suggest to the trade that this money should be directed to in-store activity, and again, hopefully, to the product at a price which would be lower than the normal shelf price.

Co-Chairman Mr. BASFORD: I understand that some years ago your company discontinued this practice in terms of co-operation?

Mr. ROBINSON: We had a merchandising incentive plan, as we chose to call it. It was brought to our attention that the Combines Investigation Act study at that time showed that, as regards Section 33B, perhaps some of the things and the way our plan had been put together, might not be quite right. We discontinued it, and adopted a new plan which was used in 1963.

Co-Chairman Mr. BASFORD: That is not what I was referring to. At that time you developed a plan that coincided with the Combines Investigation Act. I am informed that at one point you told the chains that you would not participate in promotional deals.

Mr. ROBINSON: I think we suggested that our plan was discontinued for the reasons I have outlined. The plan was not, in our opinion, quite the way that it should have been and it was discontinued until the new plan was devised.

Co-Chairman Mr. BASFORD: Does the American company contribute to the chains by way of promotion and co-operation?

Mr. ROBINSON: I cannot answer that specifically. I know our products have—I know this simply from what exposure I have to U.S. newspapers, grocery advertisements and so on—that our products do receive the support of most of the retail distributors.

Co-Chairman Mr. BASFORD: Is Mr. Rochester with you? I take it he is from the American company?

Mr. ROBINSON: Mr. Rochester? Is he with me? Here now you mean?

Co-Chairman Mr. BASFORD: Yes?

Mr. ROBINSON: He is not.

Co-Chairman Mr. BASFORD: I am told, and you might comment on this, that some years ago your company changed its promotional co-operative advertising scheme and Dominion Stores immediately informed you they would de-list five of your products?

Mr. ROBINSON: I guess any manufacturer has products on the shelf, and we are no exception. Some of the ones I have talked about earlier here, I guess, if I were to be honest about it, some of them would not be on there. Perhaps with the amount of turnover that is necessary, no retailer could stock items on his shelf that are not providing him sufficient turnover to make it worth while.

Co-Chairman Mr. BASFORD: That is a very general comment on a rather specific situation.

Co-Chairman Senator CROLL: It was not the answer to the question.

Mr. ROBINSON: During the year 1962 there were a few of our products, and among them were the minor items I have talked about, that did not have distribution in some outlets.

Co-Chairman Mr. BASFORD: Which outlet?

Mr. ROBINSON: I cannot be specific as to just which ones they were, at this point.

Co-Chairman Mr. BASFORD: Are you sure?

Mr. ROBINSON: Yes.

Co-Chairman Mr. BASFORD: We will leave it at that, for the moment.

Mr. URIE: As a supplementary, I would ask if Mr. Robinson would be good enough to supply the committee with copies of the incentive plans and deal arrangements and so on that are supplied to the various customers?

Mr. ROBINSON: Let me ask you, Mr. Urie, you want these to include the free goods and allowances deals? There is no hard and fast pattern, it can be 50 cents a case, 35 cents a case, for 30 days, or one case free in ten. There is no hard and fast pattern.

Mr. URIE: How are these initiated? Are they initiated from time to time during the year as the result of action taken by you, or are they initiated by the retailer?

Mr. ROBINSON: These are purely our own decision. We will single out a product that we want to promote for a given period. It is extra promotional activity, if you like, and we will give this free case or allowance.

Mr. URIE: To any retailer or any wholesaler?

Mr. ROBINSON: To all.

Mr. URIE: On the same basis?

Mr. ROBINSON: Yes.

Mr. URIE: How many times a year would you do that?

Mr. ROBINSON: In this past year I would say we had three promotions during the year, free goods or allowances.

Mr. URIE: Would you be good enough to supply the committee with the cost of such promotion, to your company, during 1965 or 1966, whichever is the more convenient?

Mr. ROBINSON: You want the cost of free goods and allowances, this is one case free, or 50 cents, and so on, in 1966.

Mr. URIE: Yes.

Mr. SALTSMAN: Mr. Robinson, how do you determine your selling price to the stores? How do you determine at what price a box of corn flakes will sell?

Mr. ROBINSON: How do we determine that? Well, our price is based on our cost of material, production, our selling expense, our advertising expense and, of course, our profit factor.

Mr. SALTSMAN: How do you determine what your selling expense is and what type of profit you want to make? Do you have some preconceived notion of what kind of return you want before you market a product? Do you have a preconceived notion of how much advertising is going to go into that product?

Mr. ROBINSON: First of all, we would look at the type of product to see if, for example, it was a juvenile product and would fit into that area, or would be in that range. There is no set price, however. There are so many combinations of grains and flavours that it is difficult to say that one particular product will be the competitor to any product we might introduce. Rather, it has to be treated in terms of a category.

Mr. SALTSMAN: Do you feel, then, when you put out a special product with a special name to it that it really has no exact competitor? It is an item in itself and you can price it according to what you think the public is prepared to pay for it. Is that it?

Mr. ROBINSON: Let us take our most recent introduction as an example, Apple Jacks. This is an apple and cinnamon flavour. Now, it would be difficult to put that into any predetermined category, unless you would put it into the category of presweetened foods. I suppose that is where we would look for it. It is a presweetened product. It is different from anything else on the market, but perhaps it can be considered as a presweet.

Mr. SALTSMAN: I think the committee has been very concerned about trying to determine the role that advertising plays in consumer prices and how it affects the consumer. I think, whereas all of us recognize the value of advertising, there can be some excellent arguments in terms of a level of production. It has been pointed out how advertising can be a useful instrument in getting year-round production at a plant.

The real question is not whether advertising itself is a good thing or whether it helps the consumer, but whether the amount of advertising that is now being carried out is serving the consumer well or whether some consideration should be given to finding ways of reducing the amount of advertising which is being conducted.

Co-Chairman Senator CROLL: Is this a question?

Mr. SALTSMAN: It is a preamble, Mr. Chairman.

Co-Chairman Senator CROLL: I realize that. I have got a long list, you know. Go ahead.

Mr. SALTSMAN: Let me ask you this, and I will have to put this in the form of a question, in deference to the chairman: you indicated that the welfare of your company depends upon advertising. Is that correct?

Mr. ROBINSON: Certainly in part, yes.

Mr. SALTSMAN: You have also indicated to a considerable extent the welfare of the whole industry depends upon advertising. In other words, because you are competing with bacon and with eggs and with other products, you need to advertise.

Mr. ROBINSON: I think this might be said about the entire food industry.

Mr. SALTSMAN: Can you relate how the welfare of your company, and the welfare of the industry generally, is related to the welfare of the consumer? How does it benefit the consumer by your conducting your industry and your

company in this particular fashion? If, for instance, all of you within the industry were to reduce your advertising by 20 per cent and pass that cost on to the consumer, would this not benefit the consumer?

Mr. ROBINSON: I would think not. I would suggest that, if we were to discontinue or to reduce any amount of our advertising, this could only result in a declining market, and as a result, a higher unit cost.

Mr. SALTSMAN: In the table you gave us, Kellogg's Products—Case Volume, when your products started to drop during the period of time you reduced your advertising, did those products increase in price?

Mr. ROBINSON: Did the products increase in price?

Mr. SALTSMAN: Yes. I am referring to your exhibit, Kellogg's Products —Case Volume. In the case of "A", you reduced your advertising in 1959 and there was a substantial volume drop from there on in, and in "B" and "C" a similar pattern developed. There was a substantial volume drop when you decreased your advertising.

Did your prices on those products increase when your volume dropped?

Mr. ROBINSON: Did the prices on these products increase?

Mr. SALTSMAN: Did you raise the price of those products when your volume dropped?

Mr. ROBINSON: We did not increase the price. When we cut out our advertising our volume decreased considerably and each of these three items are a high-cost item.

Mr. SALTSMAN: Why did you not adjust your prices on the basis of what you told me earlier, that, if advertising is reduced, then you get shorter runs and your costs go up and you need to raise prices? You did not raise the prices in this particular case.

Mr. ROBINSON: No, we did not.

Mr. SALTSMAN: You relate volume to your costs? This is what I am asking.

Mr. ROBINSON: Each of these three products, again, must necessarily stay within the acceptable price level, and I guess we felt at that time that we would be unwise, we would further speed the demise of the products, if we were to increase the price.

Mr. SALTSMAN: If everyone in the industry, if those people manufacturing breakfast cereals, were tomorrow to reduce their advertising amounts by 20 per cent, would the price of breakfast cereals start to rise?

Mr. ROBINSON: Would they start to rise?

Mr. SALTSMAN: Yes, would the price of breakfast cereals become higher?

Mr. ROBINSON: That is difficult for me to answer. Certainly, the price would not go down. We would be faced with higher costs. Our volume would go down and we would be faced with higher costs of production.

Mr. SALTSMAN: Well, the price never goes down for any reason. However, they would not rise, you say?

Mr. ROBINSON: They would eventually. If the product were still considered as one that the manufacturer wished to retain in his business, then, as costs increased, there would certainly come the point where he would have to increase his prices.

The company might be able to accept one or two of these items, but certainly, if it applied to his entire line of products, I would say that he would have to increase his prices because the costs would go up.

Mr. SALTSMAN: I would like to get to this question of what extent the consumer wants some things and what extent the consumer is sort of induced to

want some things. Looking at this table you gave us, from my interpretation of it as I read it, and again, I am referring to Kellogg's Products—Case Volume, the sheet that you gave us as an exhibit, it seems to indicate that the consumer, if left to her own devices and not influenced by advertising, makes a different kind of decision, because, when you were advertising your stock on certain products—and I presume that the quality of the product did not change during that period of time—and when the advertising was reduced on those certain products, the consumers' demand for those products declined. Is this correct?

Mr. ROBINSON: If I understand your question correctly, it is that when we discontinued our advertising the consumers' demand for those products declined.

Mr. SALTSMAN: Yes?

Mr. ROBINSON: Yes.

Mr. SALTSMAN: Would you not consider that advertising those products was inducing the consumer demand rather than responding to consumer demand?

Mr. ROBINSON: I think it would simply suggest that the product is still available. It is continually reminding the consumer of what choice is available to her that spells success or failure.

Mr. SALTSMAN: Why should the consumer not be allowed to make her own choice without being perhaps unduly influenced by advertising? For instance, you have done a fair amount of advertising of this product. You have put it on the shelf. She knows it is there. Why should she not be given a fair amount of freedom to make this choice herself instead of having the product promoted so that her child will insist on it so that she has to buy it.

Mr. ROBINSON: I think she has every right to make that decision. The decision as to whether the product will be manufactured or stocked in the retailers' stores is the decision of the consumer. I guess that we, as manufacturers, do not make that decision. The retailers certainly do not make that decision. The 20 million people in the country decide whether or not the product will or will not be first in distribution and, naturally, if it will be manufactured or not.

Mr. SALTSMAN: In the light of some of the information you have given us, are you saying that advertising is not influencing the decision of the housewife or child for certain products?

Mr. ROBINSON: I consider advertising a very worthwhile and a very influential part of our business. It will take a message to the consumer about a new product or an improved product. Certainly, we are all influenced in some way or other by advertising. Everything that we do, I think, stems from that. Perhaps, if you ask yourself why you buy the type of car you buy or why it has a certain type of tire, I think that if you look back you will find that somewhere in your mind someone has convinced you that that particular automobile or tire or product was the one that was the best quality to satisfy the need that you particularly had.

Mr. SALTSMAN: I am interested in the structure of your industry, in a way. How easy is it for somebody who is not already in the food industry to go into breakfast cereals? If your competitor wanted to go into this field, how easy would it be for a new entrant? Have there been any new entrants in recent times?

Mr. ROBINSON: There have not been any new entrants in the last few years. As to whether someone can go into the cereal business, the answer is "certainly".

Co-Chairman Senator CROLL: But he means can he stay once he is there.

Mr. ROBINSON: I guess that would depend upon the type of product he makes. The question is whether the product he develops will satisfy a particular need. It is a question of whether I can produce a product of a quality that once the consumer has tried it he will continue to purchase it.

Mr. SALTSMAN: In view of your comments on the corporate image, and I come back to that again, and how the consumer relies on it, does not this creation of the corporate image attempts to give a product an oligopoly in that you have trained the consumer to place reliance on a brand name rather than on the intrinsic merit of the product itself.

Mr. ROBINSON: I suggest that a reputation is a long and hard thing to earn, and if someone builds a better mousetrap, that is the mousetrap that will be purchased.

Mr. SALTSMAN: If I build a mousetrap and do not have the money to advertise it, what would happen?

Co-Chairman Senator CROLL: You would end up with mousetraps—that is what you would do.

Mr. SALTSMAN: With that sage comment I will end my questioning.

Co-Chairman Senator CROLL: Mrs. MacInnis.

Mrs. MACINNIS: I want to deal with the cases of the products on which you discontinued advertising in the two years 1960 and 1964. Why did you discontinue advertising on those products?

Mr. ROBINSON: Why did we discontinue advertising?

Mrs. MACINNIS: Was it to cut down the price to the consumer?

Mr. ROBINSON: In our total advertising mix there are only so many available messages or impressions at our disposal, and the investment we make in advertising and promotional expenditure is itself determined by our marketing people who tell us that those impressions would be better used on "X" product rather than on another.

Mrs. MACINNIS: Did you discontinue the advertising in order to launch another new product at that stage?

Mr. ROBINSON: That could be part of it. As these new products are launched they do require a higher than normal advertising expenditure. If you are trying to contain the total amount you are going to invest in this area—

Mrs. MACINNIS: Could you tell me definitely whether there were new products launched following discontinuance of advertising in those years, and if so what were they—that is in 1960 and 1964?

Mr. ROBINSON: I don't know if I have that information. In 1964 our company launched a new product, Kellogg's Froot Loops.

Mrs. MACINNIS: And how about 1960, or following 1960?

Mr. ROBINSON: In 1960 we launched Kellogg's Cocoa Krispies. I guess some of the names you are having difficulties with must be some of the products we do not advertise properly. In 1961 we had Kellogg's Sugar Stars.

Mrs. MACINNIS: Would I be correct in concluding that the reason the advertising was discontinued in those two years was in order that this product could be launched by this form of advertising?

Mr. ROBINSON: That could be the case. I would not want to say that that was the determining factor.

Mrs. MACINNIS: Would the consumer be right in drawing that conclusion?

Mr. ROBINSON: I don't really know.

Mrs. MACINNIS: We will leave that for the moment. Were these new products higher in price than those they replaced or on which the advertising was discontinued?

Mr. ROBINSON: I cannot be specific as to prices but I would think probably not. These items were pre-sweetened, of course.

Mrs. MacInnis: It would be interesting to find this out, particularly for the consumer, because they frequently discover that when an item is withdrawn and replaced by another, the new item is usually sold at a higher price.

Mr. Robinson: But these items were not withdrawn.

Mrs. MacInnis: When the advertising was discontinued and they fell away were the new products higher in price than the others had been?

Mr. Robinson: They were different products—

Mrs. MacInnis: For example, the Sugar Pops, were they higher in price than the ones on which you discontinued advertising?

Mr. Robinson: I would think probably not.

Mrs. MacInnis: This is a point I would be interested in getting information on.

Co-Chairman Senator Croll: The question is on the record very clearly. What Mrs. MacInnis wants to know, Mr. Robinson, is whether these items the advertising on which was reduced in 1959, 1961 and 1964 were replaced with other items of a higher price.

Mr. Robinson: You are asking if the products introduced in the years we discontinued this advertising were more costly than the products on which the advertising has been discontinued?

Mr. Allmand: And, more importantly, was there a higher profit margin?

Mrs. MacInnis: You can find out about that; I want to continue on this.

Co-Chairman Senator Croll: We included your question in this, Mr. Allmand.

Mrs. MacInnis: Now I would like to go on to another subject. I would like to ask if children are more susceptible to advertising than adults.

Mr. Robinson: Much has been said in that area. I really cannot say who is more susceptible. Let me talk about a show that was mentioned earlier, the Yogi Bear Show. When that was part of our advertising plan, while it was initially purchased for children, after it had been on television for better than a year we got back a broadcast index telling us how many were watching the show and the age groups, and surprising as it may be 52 per cent of Yogi Bear's audience was adult.

Mrs. MacInnis: I won't ask for the mental age—we will let it go at the chronological one. I don't know where this magazine came from. Did you distribute this?

Mr. Robinson: No.

Mrs. MacInnis: I want to read a short statement from this—

> Don't Underestimate the Power of a Kid They now tell mother what to buy for breakfast. And she buys it—$650 million worth of dry cereal a year. If she doesn't, Cap'n Crunch or Yogi Bear will get her.

What I want to ask is this: I understood that business has certain fair practices laid out. Is it, in the opinion of your company, a fair thing to do to get the kids to use blackmail on their parents to buy these things when the children have no money and the parents have a family budget and where this can upset the budget? Do you ever figure these things out in your company in the light of business ethics—do you consider it a fair practice?

Mr. Robinson: Let me answer in my own way. I have three daughters who have gone through the stages that most children do, and when I am in the grocery store—about once a week—if my youngster requests some item for whatever reason— be it the advertising, if you will, the promotion, the label, the connotation of the product—if I can be reasonably certain that by their wanting

something—and perhaps I am a more rigid parent than some, but if my children want something, and if they get what they want, it must be used. Have I answered what you asked?

Mrs. MACINNIS: You have, perhaps, for your income group, but is this true of low income people, where parents have to watch very carefully the balance of food in making purchases?

Mr. ROBINSON: I think all parents are basically the same: they are interested in the welfare of their children and are interested that they get proper nourishment. Certainly, there are controlling factors.

Mrs. MACINNIS: I guess I got my answer. Your company, or nobody else's company, can afford to take into account how far the family budget will stretch. I am raising these points because they are things that concern me, that in merchandising practices children are used as a club over the parent's head by firms to buy things they cannot afford in the family budget.

Mr. ROBINSON: We certainly do not attempt to use anything we do advertising- or promotions-wise as a club over the parent's head.

Mrs. MACINNIS: There is one more thing. You have all kinds of choices of product that you are selling, and you also have all kinds of sizes of packages for the choice of consumers. Again, I am asking this question on behalf of a great many women. Have you ever considered having a choice of packages with gimmicks in side by side with packages with no gimmicks for the consumer to buy?

Mr. ROBINSON: I think we have thought of it, and I guess we have done it on numerous occasions.

Mrs. MACINNIS: With what result?

Mr. ROBINSON: Kellogg's Corn Flakes, on occasion, have had an insert of some type—an edible or plastic toy type. Many times these have been distributed on what we consider a 50-50 basis, every other package has these inserts in them; and they are on grocers' shelves exactly that way—some have and some have not.

What does it do to sales? At the end of the month, when we go back for our next order, we find both packages with and without have gone into the consumers' hands. Have I answered that properly?

Mrs. MACINNIS: You have, except you have opened up the whole question of whether advertising on the scale you are doing it is necessary to sell these things, because if women will buy these things without the gimmicks, on an even-handed basis with the gimmicks, why add all that into the product?

Mr. ROBINSON: Not all products are under promotion at all times. We will single out a given product for a given period and apply some form of promotional pressure.

Mrs. MACINNIS: In other words, you do not believe, having built up this reputation of which you spoke, that it will carry over with a big enough body of steady customers without this continual gimmick advertising going on?

Mr. ROBINSON: We think that people will drift away from a given product, be that what it may; and it is vitally important, through the medium of advertising, that they be reminded of the product they once purchased. This has proven successful in our business. Any time we have properly advertised and promoted a product, we have had a reasonably acceptable marketing experience; and if we have not, the experiences have been the reverse.

Mrs. MACINNIS: I would like to see you some time try that with a well established product like plain cornflakes—have some with gimmicks in and some without gimmicks, a controlled group, and see how they sell. You might be surprised.

Co-Chairman Senator CROLL: Mr. Scott, I have quite a list. Will you be short?

Mr. SCOTT (*Danforth*): Yes, I will be brief.

Mr. Robinson, of the 24 products you have on the market, how many of these are what you describe as "kid-oriented"?

Mr. ROBINSON: That is most difficult to answer. Our consumption of cornflakes is about 50-50 adult and juvenile. Rice Krispies falls in the category of being the 50-50 type of product. When I use the term "juvenile-oriented" I think of the pre-sweetened types which are highly acceptable to juveniles and to a much lesser extent to adults.

Mr. SCOTT (*Danforth*): I wonder if you could verify this. I have an article which says that children age 3 to 12 now influence almost 70 per cent of the cereal market. Would that be an accurate statement?

Mr. ROBINSON: What was the percentage?

Mr. SCOTT (*Danforth*): They now influence almost 70 per cent of the cereal market.

Mr. ROBINSON: That could be quite possible, when you consider all of our products and all the industry's products are highly acceptable to children.

Mr. SCOTT (*Danforth*): Just one other question. I want to ask you whether your firm packs for wholesalers or retailers under private label brands?

Mr. ROBINSON: All Kellogg products manufactured by our company are packaged under the Kellogg label.

Mr. SCOTT (*Danforth*): You have no private brands?

Mr. ROBINSON: No, we have no private brands.

Co-Chairman Senator CROLL: That was not quite the question. You do not sell to anyone who may sell it under his private label?

Mr. ROBINSON: Kellogg's do not provide any of their cereal production for private label use.

May I extend on that a little? I do not believe in this country—with the possible exception of some local western manufacturers of puffed wheat and, I believe, some puffed rice—that there is any private label cereal production.

Co-Chairman Mr. BASFORD: I would like to go back for a minute to the instance I was speaking to you about before, where you were notified your products had been de-listed by some of the chain stores—I think you said by some of the "outlets." What type of outlets were those?

Mr. ROBINSON: It would apply pretty much to any type of outlet, from large to small. Some of our products were not available in all types of stores.

Co-Chairman Mr. BASFORD: Why were they not available?

Mr. ROBINSON: Many of these items, as I indicated earlier, are minor items. Some of them were duplications of sizes, and it was felt that either by way of volume or number of sizes a product might not be necessary. We still experience this today. We market a product with eventually two package sizes. I do not think I could say we have any product where we would feel assured we had 100 per cent retail distribution of any product. That goes right on to cornflakes. We do not have 100 per cent distribution of any particular package size. Certainly, the product in total is in stores that account for most of the grocery business, but in one particular package size—some carry one or two, and some the three.

Co-Chairman Mr. BASFORD: I think you are talking general merchandising. I am going back to 1962, when you told me that some of your products were delisted and you could not recall which outlets they were. I would like to be provided with which they were.

Mr. ROBINSON: That can be done, certainly, if our records show what was available in each of our 350 different direct accounts.

Co-Chairman Mr. BASFORD: I put to you a specific case of where some of your products were. I put it to you you have been told by Dominion Stores that some of your products would be delisted unless you changed your co-operative promotional policies.

Mr. ROBINSON: I think our records would show all the products the account you referred to had in stock. I am sure our sales records would show—that our invoicing structure would show—all the products which were purchased back for a number of years, if that would provide the information you are requesting.

Co-Chairman Mr. BASFORD: What I was getting at was that you were threatened with the delisting, and you changed your promotional policy. Is that correct?

Mr. ROBINSON: I suppose we did have some delisting right across the whole spectrum of our business.

Co-Chairman Mr. BASFORD: As a result of changes in your promotional policies?

Mr. ROBINSON: I would not suggest that was necessarily the reason.

Co-Chairman Mr. BASFORD: "Not necessarily the reason" is not a very firm answer, one way or the other.

Mr. ROBINSON: It is difficult to know why.

Co-Chairman Mr. BASFORD: Let me ask you this: Did you change your promotional policy shortly thereafter?

Mr. ROBINSON: During the year 1962 our promotional strategy as of January 1 did not change at all. Our promotional strategy remained the same. We used the half price sales that I spoke of earlier, but that was the extent of our activity. In fact, that activity was extended on throughout the year.

Mr. JOYAL: I have had a chance now, Mr. Robinson, of analysing some of the index figures you have given in your brief. It is interesting to note that you show a price index on your raw produce of 22 per cent, on labour of 52 per cent, freight 3 per cent, and a remarkable 27 per cent on advertising. These are index figures now, and the difference between those for 1958 and 1965. This would indicate that you have suffered cost increases on an index basis of approximately 26.5 per cent over the past 8 or 9 years. Yet, your product has increased only—and I include in this your November 1 increase—by about 18 per cent. I think it is very important for the record to point out that your cost increases have not been reflected completely in an increased cost to your consumer. At the same time, however, you indicated that you had 50 per cent of the cereal market in the country. The question I wish to put to you is: To what extent does that 50 per cent corner of the Canadian market in cereals inhibit the competitive process in cereal foods?

Mr. ROBINSON: I do not suggest that our share of the market should slow anyone's progress. Certainly, we have a healthy share of it, but this was not always the case.

Mr. JOYAL: But, you show a return on sales of 23.4 per cent, which is by far the highest than any of the food processors, distributors or retailers have indicated before this committee to date. More that this, if I refer you to a report prepared by Dun & Bradstreet, a 22 per cent or 23 per cent return is the highest of any manufacturing, retailing, wholesaling, service, construction, transportation, utilities industries, or any other of the many of the thousands of industries in this country. You return is the highest return of all.

I admit that perhaps you are limited in what you can do in Canada because of your relationship with your parent company, but you still show the highest possible return that we have ever seen in terms of sales. Yet, on November 1 you still found it necessary to increase your prices by approximately 10 per cent.

This is something in respect to which I think the members of the committee will find your explanation very interesting.

Mr. ROBINSON: I do not know that I have an explanation for some of the facts and figures you have used. I suggest that in the operation and management of our company all of the factors involved in our cost of doing business are considered in order to provide the margin of profit that we wish to achieve. As I indicated in the submission, this level puts us right back on base, at just about our level in 1958.

Mr. JOYAL: Yes, but in September when Stelco wanted to increase its price—and Stelco according to this chart here has a 10 per cent profit on sales—the Minister of Finance said: "Look, you are not going to do this". You are enjoying 22 per cent or 23 per cent on sales. Why should not this committee decide to tell you to roll back your prices? Is not your competition going to increase its prices accordingly?

Mr. ROBINSON: I do not know that. I would think that as we determined our cost increases and felt that an increase was necessary, that probably the costs we looked at would be similar in their business, and I could not say what—

Mr. JOYAL: Would it not be of interest to the consumer who is concerned with rising prices to know that the increase in the cost of your product was not completely in accordance with the rise in your costs because your profit margin was already very wide. I do not know, but it may be that the spread is made up by an increase in volume. However, this is part of the North American philosophy that you increase volume and reduce unit prices. You have increased your volume tremendously over the past several years. You have a very fat advertising budget to increase that volume. Even more, you have created demands—you create a demand which you are in a position right there to satisfy by the self-same process of creating it, and yet you found it necessary on November 1 to increase your prices by a further 10 per cent. Can you comment on that? Have you any comment to make on that?

Mr. ROBINSON: I would have no comment.

Co-Chairman Senator CROLL: Mr. Robinson, have you the guide lines that were sent to you by Dr. James?

Mr. ROBINSON: Yes.

Co-Chairman Senator CROLL: Would you look at them, please? The first one has to do with financial statements. You have provided us with merely your gross sales in 1964 and 1965. We require that you provide us the figures from 1960 in the same way.

Mr. ROBINSON: Yes, sir.

Co-Chairman Senator CROLL: No. 2 asks for the annual advertising expenses and their relationship to gross sales for the same six-year period, and also asks you to detail principal charges made to this account. I do not think you have provided that.

Co-Chairman Mr. BASFORD: Yes, he has.

Mr. URIE: It should be broken down.

Co-Chairman Senator CROLL: That is what I am suggesting. He did not break it down. Please make a memo that that needs breaking down. Give us cost of the containers and other packaging materials for the last six years, and show the relationship of the cost of them to gross sales. Now, this is called what? (*Indicating small corn flake box*).

Mr. ROBINSON: It is an individual corn flake package.

Co-Chairman Senator CROLL: How is it known in the trade?

Mr. ROBINSON: A corn flake individual.

Co-Chairman Senator CROLL: How many ounces does it contain?

Mr. ROBINSON: Three quarters of an ounce.

Co-Chairman Senator CROLL: We would like to know what the contents of that cost, what the container costs, and what it is sold at.

Mr. ROBINSON: The whole cost involved in the production?

Co-Chairman Senator CROLL: Yes, that is right. You have answered No. 4. How do you determine that your sale prices are competitive—I do not know whether he has answered that.

Co-Chairman Mr. BASFORD: Yes, I think he did.

Co-Chairman Senator CROLL: No. 5 requires a full answer. No. 6 requires a full answer. No. 7 is answered. No. 8 is answered. No. 9 is answered. No. 10 is answered. No. 11 is not answered in full; that is, the 10 major commodities.

In order for us to be able to understand what we are dealing with and to render a judgment, we require answers to all of these. I think you have tried to give us as much information as you can this morning, but we are in need of this other information almost immediately, otherwise we will have no choice but to call you back, and we do not want to do that.

Mr. ROBINSON: Certainly, as soon as I return, I will have that done.

Co-Chairman Mr. BASFORD: With respect, Mr. Chairman, I am not sure that it is possible—this is for Mr. Robinson to say—to break down the 10 major commodities into production, warehousing, sales, containers, etc., when it is all breakfast food.

Mr. ROBINSON: Yes, it is difficult to do. There are certain cost factors, such as those for the grain, that apply to all products. We know how much grain is used in the product, and we can determine this, but having regard to the fact that our products are so closely integrated there are a number of items with respect to which we shall have to give you an educated guess.

Co-Chairman Senator CROLL: Well, do the best you can on that. We do not want to be put in the position the housewife is in of having to compare $4\frac{3}{4}$ ounces with $7\frac{3}{4}$ ounces. Try to give us that information so we may use it for purposes of comparison.

Co-Chairman Mr. BASFORD: I think it should be understood that the question has been asked of people who usually have a completely diversified operation, and who manufacture tomato juice, baby food, canned soup, and totally different products. We are dealing here with someone who thinks of nothing but dried cereals.

Mr. ROBINSON: This is our reason for consolidating all the figures.

Co-Chairman Senator CROLL: Handle it the best way you can so that it is meaningful to us.

Is there anything further? If not, on behalf of the committee, Mr. Robinson, I want to thank you for being very helpful to us. We shall look forward to obtaining your answers to those questions yet to be answered as quickly as possible. Thank you very much.

The committee adjourned.

November 10, 1966

Upon resuming at 3:00 p.m.

Co-Chairman Senator CROLL: Members of the committee, we have before us this afternoon General Foods Limited. On my immediate left is Mr. Marcel Poirier, Sales Manager of the Beverage Division. Next to him is Mr. James W. Andrews, President, and on my far left is Mr. Robert S. Hurlbut, Vice-President, Marketing.

Mr. James W. Andrews, President, General Foods Limited: Honourable members of the committee, we have prepared this brief for you with the idea in mind of giving you the answers to the questions we have heard raised most frequently. As you may know, I have attended a number of these sessions, and I have found them highly educational. You will find in this brief, under special headings, a number of topics that have not been covered in any brief before. They will give you some background information that we hope will be useful and helpful.

With that brief introduction I shall read the brief, and I shall ask my two associates to share with me this chore, in the interest of variety.

Mr. Chairman and members of the committee, my name is James W. Andrews and I am President of General Foods, Limited. I have with me Mr. Robert S. Hurlbut, Vice-President, Marketing, and Mr. Marcel Poirier, Sales Manager of the Beverage Division of General Foods, Limited and a key man in our overall national marketing operation.

We feel that as a company and as individuals, we represent a great deal of experience in the food business. We think that we can be of some help to the committee, certainly in telling you the facts about our own operation, and perhaps in a more general way by offering you our opinions and conclusions on aspects of the food industry which may interest you.

Certainly there is an understandable public interest in our company and its methods of doing business, and in our products themselves. No company such as ours doing business with a very large segment of the nation's consumers could stay in business as we have, for more than forty years, without having such an awareness of the public interest.

We have included in this brief today a great deal of information about our company's operations, much of it information which has never been made public in Canada before. Some of it, in a form requested by the committee, had to be extracted from our existing records or adapted from our normal records to meet the committee requirements. We hope you will find it satisfactory in presentation.

Some of the information included goes beyond that requested by the committee. If there are any omissions or any new requests for figures, I assure you that we will be most happy to obtain them for you for presentation at a later date.

General Foods, Limited manufactures and sells in Canada, more than 50 packaged food products to food wholesalers and major grocery chains from coast to coast. We are known as a large company in our field and we are indeed proud of our record of growth. However, I think it must be obvious to the committee that no one organization dominates this highly competitive business of food manufacturing. As a matter of fact, our total sales account for less than 2.1 per cent of all grocery sales in Canada.

Our history actually begins in 1910 with a single product, Postum. Since that time, we have, by expansion, acquisition and introduction of new products, developed to our present size and scope of operation. We have succeeded because our products have, with a few exceptions—some of which you will hear about—achieved acceptance by Canadian consumers.

Our manufacturing operations are carried out at two plants, one in LaSalle, Quebec and the other in Cobourg, Ontario. Chart No. 1 gives information on our plant investment and number of employees, and we thought you would find this useful. Our products include coffees, other beverages, cereals, dog foods, baking ingredients, frozen foods, desserts, and other grocery products, most of which bear names that are extremely well known in Canada. A few, such as Jell-O, Kool-Aid, Grape Nuts, Certo, Maxwell House and Sanka, have, I think it is fair to say, become virtually household words.

Most of our products fall in the convenience food category and, in a sense, one of the most important things we sell is time—time saved in the kitchen which frees consumers for other responsibilities or for leisure.

The basic task of this committee, as I understand it, is that expressed in a resolution of September 9, 1966, as follows: "To inquire into and report upon the trends in cost of living in Canada, and factors which may have contributed to the cost of living in Canada in recent months". In the light of this, I think it is appropriate for me to point out before I go into the statistics and other details, the price record of our company's products in the 18-month period from March 1, 1965, to September 9, 1966.

During that period, we were offering 53 different products. Of the total, there were no price changes on 36 products; there were price increases on 8 products; there were price reductions on 9 products. In a period such as this, we consider it something of an achievement to have no price increases, or actually to have decreases, on a list of products which account for 97.5% of our gross sales. Chart No. 2 shows a detailed list of products which have had no price changes, those which have had increases and those which have had decreases.

This is a complete list of the company's products. Where you see a zero after the name that means that there was no price change during this 18-month period prior to September 9. A minus sign indicates a price reduction, and a plus sign, of course, indicates a price change upwards. The box score at the bottom, to repeat, is 9 reductions, 8 increases, and 36 no changes.

We selected September 9 as a cut-off date because this coincided with the beginning of the investigation. Since then, there has been one price movement—a 5 per cent increase in cereal prices announced last month. This was the first such increase in two and a half years.

The net result of these pricing changes—both up and down—is difficult to measure precisely. However, we estimate that the price reduction on 9 products have resulted in a net savings of more than one million dollars to the consumer during the period, taking into account the former price level and assuming that volume of purchases remains the same.

It seems to us that a saving of this magnitude from the operations of one company constitutes a real contribution to the anti-inflationary efforts in which the Canadian economy is engaged.

We have grown, and expect to continue to grow with Canada. During the six years prior to 1966, we have invested $25,000,000 in plant and machinery. Our capital expenditure during 1966 will exceed $8,000,000 and we anticipate a further $31,000,000 expansion during the next three years. We are proud of this growth. It reflects an ever-growing number of satisfied customers for our established products, and an intelligent, consumer-oriented approach to new product development.

In all the classic definitions of what a business is, it is fundamental to point out that one of the goals is—"the seeking of a profit".

At General Foods, Limited it is certainly one of our aims to carry on our business at a profit. The financial statements which I shall present to you indicate that we do make a profit. As you will see in the detailed financial section of this brief, our profit level has been relatively stable, as a percentage of gross sales, over the past six years. Although the last two years were lower than the previous three.

We believe that the profit of a business should be a fair one; that it should be based on activities that are both efficient and competitive; that it should relate to costs of production and marketing in a fair and reasonable way; and that it should be sufficient to provide both for growth of our physical facilities and for development of new and improved products which will be useful and acceptable to the Canadian public or to significant segments of it on a basis that it is beneficial to them and ultimately, at least, profitable to us.

As the financial summary chart No. 3 shows, we have operated successfully in the period under examination. Gross sales volume reflects a healthy and consistent growth each year. Along with most other companies, we have been faced with the increased cost of doing business that is general throughout the Canadian economy. Costs of raw material and labour have increased appreciably. Increases in advertising and promotional costs during the past two years reflect the higher initial costs of launching new products.

If I may make a few comments concerning chart No. 3; the years referred to there are fiscal years ending March 31, so that the fiscal year of 1966 ended on March 31, which is roughly six months ago. The units which are shown along the line are arbitrary units so as to measure the volume or tonnage. It is the physical movement of our merchandise all put together in a common denominator for your information. Our gross sales are expressed in millions of dollars and for the last year they were $97.6 million. We include transportation, and as I say these are not percentages but actual dollars, warehousing costs, and the cash discount which is one per cent if our customers pay us within 10 days. Then there is sales tax and damaged merchandise and other allowances.

There is one point I would like to make at this stage, because I know the question will be asked anyway and I might as well get if out of the way. These allowances represent only items that appear on the invoices and represent a reduction in the amount our customers pay on the invoice. These are known as "buy allowances" or "off label" allowances. There is a net price which the customer pays so they have no association with the promotion or other methods used to market our products. It relates purely to price. Then you have the net sales figures and the cost of goods expressed, as you requested, in terms of dollars. Then you have raw material, packaging materials, labour and overhead. Then it gives the total cost of goods and the total gross margin left after manufacturing costs.

We have listed advertising and promotions, selling, administration and the well known figure for income tax, and we arrive at the profit after taxes, and down below you see the percentage of gross sales of 4.9 per cent which is somewhat less than the previous years but higher, of course, than 1961. So much for that.

Now to talk for a minute about advertising. I understand the committee is most interested in this subject. Advertising is an integral and very important part of our business. We subject it to the same rigid standards that we apply to all our products. Our advertising must be accurate, honest and trustworthy. Product claims must be supported by verified fact and may not convey to the consumer an unjustified impression or implication of value.

As a manufacturer in a business such as ours, where we must communicate directly to the consumer, advertising is the most important element next to quality and value. To us, advertising is an indispensable tool in maintaining and increasing the sales of our established products and in permitting us to successfully introduce new and improved ones. We recognize it as an expenditure and it is so shown in our financial summary; but it is a cost without which the end price of most products would be significantly higher. Sensibly applied, advertising increases sales, lowers unit costs and helps provide the dollars that enable us to grow with and contribute to Canada's expanding economy.

Last year, as chart No. 4 illustrates, if you will turn to that, please advertising represented 9.6 per cent of our gross sales, which means that in the fiscal year ending in March, 1966, we spent approximately $9,400,000 on advertising. This is an increase of 42 per cent over fiscal year 1961 when we spent $6,600,000. In the same period, sales increased from $61,400,000 to $97,600,000, an increase of 59 per cent. Consequently, advertising as a percentage of our sales dollar decreased significantly in this five-year period.

In real terms, our spending on established lines has decreased since 1961, even though the cost of reaching consumers has gone up approximately 30 per cent because of advertising rate increases. This is shown in chart No. 5.

There has been, as you can see, an absolute increase between the years 1961 and 1966 of $2,800,000. To put this figure in perspective we are currently spending $3,100,000 to advertise products which did not even exist in 1961.

Our market is not a static one. New family buying units increase at a rate of about 100,000 per year. New products, and improvements to old ones, are occurring literally every day.

We must keep the housewife constantly informed of the benefits of our established products, and make her aware of the advantages of our new ones. If we do not, our business—which depends on volume—will become static and ultimately decline.

We are constantly testing advertising to make sure we are not wasting money. We take the same approach in all areas of our business where any sum of money is spent; including manufacturing costs, administration and the purchase of materials.

We have even tried withdrawing support from certain products and in virtually every case, sales volume dropped. Instead of saving money, we lost it.

Packaging: We share the interest of the Government and of the public in the necessity for truth in packaging. Packaging, particularly of the convenience type of foods, on which we at General Foods concentrate a great deal of our activity, must serve a number of purposes. It must protect the goods which it encloses. It must be easily identified by the customer in the store. It must carry instructions and information on how to use the contents. It must provide in many cases the specific quantity which can be most easily and conveniently prepared by the housewife. It should not add unnecessarily to the total cost of the product.

Now there is going around a deceptively simple argument which is frequently put forward in favour of uniformity of packaging. This argument often takes the line that manufacturers should be required or permitted to pack only specific amounts, such as pounds or simple fractions of pounds, the theory being that to take this approach will eliminate production of unnecessary size ranges, will increase efficiency in the manufacturing operation and will ultimately lead to lower prices and to less confusion among consumers.

Superficially, it sounds like a convincing theory. However, it has a flaw which I would like to illustrate to you. I might add that much the same illustration was given you this morning by Mr. Robinson, but perhaps this will enable you to get a different perspective on what I am talking about. Here is a package of a breakfast cereal called Honeycomb which we produce; it contains 6 ounces of product. Here is another of our cereals, a new one by the way, VIP—Vitamins, Iron and Protein. It contains 11 ounces of product. In other words, that is not so much. Here is a third, Bran Flakes; it contains 14 ounces of product. All three packages are the same size, exactly, and the point is they must go through the same high-speed packaging machinery. There are other packages of cereal the same size containing 8½, 10 and 12 ounces of product. So there are six different products go into this same package shell, as we call it. All of the packages, or shells, are packed on the same line of packaging equipment at our Cobourg plant. In all cases, the weight is clearly marked on the package and, I might add, the package is full when it leaves our plant. Occasionally it settles down in transportation, but when it leaves our plant it is full and weighs the amount indicated.

The simple fact is that some cereals have greater density than others. Bran Flakes pack more compactly than Sugar Crisp, with the result that there is a difference in the weight of the package that appears on the grocery shelf. We certainly do not intend to deceive the consumer with these items and we are

convinced that we do not. We do know we save her money through the efficiency of operating one packing line for a variety of products. If we were required to pack a standard weight of cereal, regardless of density, we would have to install additional packing equipment and we would also have to expand our plant to accommodate it.

We asked our engineers to figure what this would cost. We thought you would be interested in a specific amount. The additional equipment would cost us between two and three million dollars for the lines of cereal we are now producing. The additional building space, we estimate, would cost between one million and one and a half million. We would, therefore, be faced with additional expenses of between three million dollars and four and a half million dollars for capital improvements alone, which, I might add, would have to be passed along in some way to the consumer over a period of time.

You will see fractional differences of weight on pudding and pie filling mixes. Chocolate pudding and pie filling ingredients simply weigh more than vanilla pudding and pie filling ingredients. Yield of servings of different flavours, however, is the same. In other words, you get the same amount of end product. The basic recipes call for the same amount of milk.

A third consideration in deciding on package sizes is the varying size of family units using the product, the difference in storage space available to different people, the difference in frequency of use, all of which contribute to decisions by consumers to purchase one size rather than another of the same product.

Since there are obvious production economies in packing the larger sizes, the consumer benefits by lower price per unit. We often hear that there are just too many packages in grocery stores. As a matter of fact, I believe I have heard it here in this committee meeting.

Perhaps this is further proof that consumers as a group do not fit into any simple and logical pattern. There is no uniformity in the ordering procedures of individual grocery stores and supermarkets. Each store owner or manager appears to have his own assessment of what the customers in his neighbourhood will choose in package sizes, and orders accordingly. There is no assurance that any two orders from different retail establishments will match exactly. The demand for sizes originates with the consumers but really is passed on to us by the retailers. The choice of what packages appear on their shelves is made by them. We at General Foods know, through close association with the retail trade, that they cannot be forced to buy anything they do not want to buy.

One of the specific questions asked by the committee related to the cost of containers over the past six years as a percentage of gross sales. These figures are given on chart No. 6. You will note that while there has been considerable growth in the overall expenditure on packaging, it is, in 1966, almost unchanged from the 1961 figure.

The committee also asked us about f.o.b. sales prices. We have been asked to show quotations at f.o.b. plant, sales prices per unit of some of the principal products offered during selected weekly periods during 1965 and 1966. On chart No. 7 is a representative list of our products offered during the first week in February, 1965 and the first week in July, 1966. It is our practice to ship f.o.b. customer's warehouse. I might add with regard to all our products—particularly in the Maritimes and Newfoundland—everybody gets the product for the same price.

We were also asked, "When volume sales orders are invoiced, is the billing net of all discounts or gross less discounts?" Our practice is to bill these gross less discounts. I would like to point out here that our policy is to sell our products at the same price to all our customers regardless of volume. We have no volume discounts. We make sure that our prices are competitive through constant market research and reports from the field. There is no pat formula for

pricing. We do not employ fixed or percentage mark-ups, nor do we rely blindly on the laws of supply and demand. Each pricing situation is unique—we have a number of different businesses—and is approached on an individual basis with a view to the long-term success of the product.

Major commodities. We have been asked to select 10 major commodities manufactured by our firm and allocate production, warehousing and sales costs, such as containers and packaging materials, raw materials, wages, direct advertising, co-operative advertising, which will not appear, of course, etc.

Chart No. 8 shows the schedule of the figures requested. In a business as complicated as General Foods, Limited with over 50 products, there are large amounts of cost which cannot be specifically allocated to a product. These charges would include such things as our sales force, our administration, including manufacturing administration, plant depreciation, etc. Therefore, we have on the schedule, allocated these costs to the best of our ability.

On chart No. 8 you see across the ten large parts of our business: Coffees, which happen to be the largest part of General Foods; packaged desserts; dessert toppings; cereals; dry dog foods; our Walter Baker chocolate business; rice, Minute Rice; orange juice, three or four brands; our Bird's Eye frozen vegetables; and a conglomeration called "other beverages." You can find the individual names of chart No. 2.

Now we come to sales promotion. We have been asked for our policy concerning the use of cents-off labels, coupons and premiums. They all have a common purpose of inducing trial or increasing sales. We believe that they should not be used indiscriminately or in a way that would mislead or confuse the consumer. When properly used, they are not only effective in their own right, but actually provide added value to the consumer.

For the purpose of this brief, we would like to examine each of the three individually, because they differ in concept and are often used in different stages of marketing development:

First, let us examine the cents-off technique. We have used it on a number of products, particularly instant coffee, as an effective way of stimulating sales and of giving temporary price reductions to the housewife. The cents-off device provides a worthwhile saving for a short period and ensures that the entire saving is passed along to the housewife. It provides us with an excellent means of generating consumer trial and thereby increasing sales.

If these price reductions were spread over a wider period, the price change would be negligible and might not be reflected in the eventual price to the consumer.

We do recognize, however, that excessive use of this technique can and does cause confusion. Price and value may become blurred in the consumer's mind. Nine months ago, General Foods discontinued the use of cents-off labels on all of its brands. We hoped that our competitors would follow us and that we could use this period to re-appraise this technique fully and re-establish it on a more orderly and less confusing basis. Some of our competitors did follow us but the majority did not.

We re-introduced cents-off labels last month on Instant Maxwell House Coffee.

As a result, Instant Maxwell House is now being sold across Canada at 20¢ off on the 6 ounce jar and at 30¢ off on the 10 ounce jar. I want to emphasize that this offers the consumer the lowest priced Instant Maxwell House Coffee since January, 1964.

The use of coupons is less general than cents-off labels, but they are another effective incentive to generate product trial. Coupons are usually employed in the introductory phases of product development. They allow the consumer to sample a new product at a price substantially below the normal price.

We normally use coupons when we have made improvements on our established lines. We have found that if we can induce consumers to try our improved product, that this is one of the most efficient and economical ways of sampling, and thereby adding new customers.

Premiums used are of two varieties—the in-pack premium, and the ones you send away for. In-pack premiums are bought in large quantities resulting in extremely low unit costs. They do provide an incentive for purchase and, in the home, they are often an incentive to consumption. The more expensive mail-in premiums are self liquidating. Volume purchases of these items allow us to make them available to the consumer at a cost considerably below that of a similar item bought on an individual basis.

If I may, I would like to turn over the following two sections of this brief to my associate, Mr. Poirier, because they have to do with private labels and the whole question of value. We know that the committee is interested in this subject, and so we have done our best to condense our philosophy and point of view.

Mr. Marcel Poirier, Sales Manager, Beverage Division, General Foods Limited: The members of the committee have indicated that they would like to know if General Foods, Limited produces "private label" products.

We do produce some instant coffees which are sold as private label brands of several retail organizations. These account for a very small portion of our total sales volume—less than 8/10ths of one per cent.

In 1965, private label coffee accounted for 1.7 per cent of our coffee sales, and in 1966, 1.8 per cent. The private label coffees which we manufacture are not the same as our national brands. They are not the same products, they cost us less to manufacture, but what is even more important, the consumer can detect this. Our national brand coffees, in any type of testing, always win over private brands.

Any coffee is a blend of several varieties of green coffee beans grown either in South and Central America or in Africa, of varying qualities and characteristics, purchased by us at varying prices.

The proportion of higher-priced South or Central American beans going into the national brand coffee is higher than private brands. We have a higher cost, in other words. Instant Maxwell House also possesses another quality that many coffee drinkers consider very desirable in their coffee, which the private label coffee does not have. This is the characteristic coffee aroma. Years of scientific research went into the development of a method of retaining aroma in instant coffee. It adds to the cost of producing the finest instant coffee and this, too, contributes to the higher price.

Obviously, some consumers have come to the conclusion that the private label coffee we make is good value. However, we have at the same time continued to sell even larger quantities of Instant Maxwell House coffee. This indicates to us that a large number of consumers have come to the conclusion that Instant Maxwell House Coffee continues to be a better value.

I do not think that we, or this Committee, can say with any authority that none of these two groups is spending foolishly or making a false judgment of value. As I said, the two groups are not buying an identical product. The private label coffee we pack is not the same as Instant Maxwell House Coffee.

We believe that the consumer wants and benefits from a wide choice of products, and we also believe that the Canadian consumer is capable of exercising an intelligent choice. In some of the discussions over food prices that are taking place in various information media, there is an implication that the consumer is misinformed or gullible. It is our experience that the consumer who buys food products has great common sense, and intuitively recognizes true value; that he or she has reasons for making buying decisions which are valid

and meaningful to the individual, and which reflect tastes and value standards which result from long experience in the buying and serving of food products.

Let us examine together the question of value. It is very important to our company to learn as much as possible about the buying habits and the decision-making processes which go into the making of a choice by a consumer. Obviously, we do not have all the answers. However, we have come to the conclusion that the consumer makes her choice on the basis of value as she perceives value. Value is not an absolute standard which can be laid down for all consumers. It is a highly personal thing involving a great many factors in addition to the tangible elements of price, quantity and content. Value to the consumer includes such intangibles as confidence in, and reliability of, the product itself, or the manufacturer of the product; consistency of flavour; aroma; purity; convenience; simplicity and economy of time in preparation.

If all consumers perceived value in exactly the same way, I suppose there would only be one brand of any given product. I suppose that if price alone were the standard by which value was judged, the cheapest line of every product available today would become the standard and sole brand available in that line.

But our experience tells us that the consumers do not all make their value judgments in the same way and certainly that they do not make them on the basis of price alone. Here I am not dealing exclusively with the competition between national and private brands. Our company produces a premium coffee, which is called Yuban, which has a unique flavour quite different from that of our other coffees, which sells at a higher price and which appeals to a small but significant segment of coffee drinkers. Its ingredients differ from those of our other brands, and it is more costly to produce. It represents value to enough people to convince us that it belongs in the market place.

We are equally firmly convinced that the lower-priced private label brands have a valid and continuing role in the market place, that a significant number of consumers will continue to make their value judgment largely on the basis of price, and that they will be relatively unconcerned about delicacy or consistency of flavour, about aroma in instant coffee, or about the confidence in and familiarity with a long established and nationally popular brand. Our research confirms our opinion that this lower cost private label market does indeed exist. It also convinces us that the demand for our national brands, and in particular for the most popular—Maxwell House regular and instant brands—has a very strong foundation.

Considering the opportunity consumers have had over the years to buy private label instant coffees, and the persuasion exercised to get them to do so through pricing, through favourable display and through claims of comparative quality, it might seem surprising that the national brands have done so well in retaining their popularity.

The answer, I think, lies in the fact which I stated a few moments ago—that only the consumer, acting as an individual, can and does measure value in terms of many factors, of which price is only one.

By constant testing and by the continuing test of the market place itself, we have attempted and, we believe, succeeded in, learning how to make and market products which a significant number of the consumers will regard as meeting individual requirements of value.

A series of tests by a private research company compared consumer preference for Instant Maxwell House against private brands. The cumulative result of those tests showed a spread of 20 percentage points in favour of Instant Maxwell House over the combined average preference for the private brands.

These tests were carried out by consumers in their homes over two-week periods using jars that were not identified as to brand. These tests, involving 6,447 consumers, covered a five-year period up to September, 1966. Instant Maxwell House won every time over every private brand involved!

Mr. ANDREWS: Thank you, Mr. Poirier. Another subject that I know the committee is interested in is that of product development. In as much as the products of our company have increased in number from 1 to 53 over 50 years it is obvious that we have done much product development. We have put together a brief summary for your information concerning our methods of new product development. I am going to ask Mr. Hurlbut, our Vice-President, Marketing, to read this part of the presentation.

Mr. Robert S. Hurlbut, Vice-President, Marketing, General Foods, Limited: As Mr. Andrews has said, a great deal of General Foods total sales volume and growth in importance in the food industry is related to our development of new products. We could undoubtedly have decided several years ago that we had an impressive line of popular products and were carrying on a profitable business and that we could, therefore, relax and stop worrying about developing new products. We do not know how we would have fared as a company if we had made that kind of decision. We might have found ourselves in a position similar to that of Henry Ford when he decided that the Model T was here to stay and that the customer could have any colour he wanted as long as it was black.

We believed that we could only be successful in business by adapting to the conditions of the modern world; by being prepared to identify and to meet the changing needs of consumers for products within our field of operations; and by taking advantage of technological and scientific innovations which might make possible the production and marketing of products which were better than existing ones or which had long been wanted but which had not been technically feasible.

We get most of our new product ideas from consumers themselves. Naturally these ideas are rarely in the form of a specific demand for a specific product. A consumer may express a desire simply by voicing some want, some problem, some frustration she has experienced, and by doing so she may plant the germ of an idea in the minds of our trained dietitians and researchers.

We keep closely in touch with consumers. One of the most important means of contact is the General Foods' Kitchens in Toronto where our experienced home economists explore new product possibilities. The General Foods' Kitchens hear from up to 1,000 consumers a month through letters, telephone calls or personal conversations. These contacts keep us aware of the thinking of consumers, of changing tastes and changing problems which can perhaps provide an opportunity for the development and introduction of a new product.

Research projects provide us with a great deal of information on the eating habits, menu planning, food and beverage consumption in homes throughout the nation. From these we learn of family feeding problems and situations where nutritional needs are not being met effectively, economically or conveniently. We frequently use questionnaires in which we invite respondents to submit suggestions and problems. Constant review and analysis of government and industry surveys enable our marketing people to stay abreast of trends and developments in the marketplace.

Development of a new product can be a long and very costly process and we are careful not to carry any new project very far without checking frequently with consumers to see whether we are working on constructive lines which will be acceptable to the consumer and from which she will benefit.

As a first step, we conduct interviews in which people are asked to give their view of the basic concept of the new product. The reaction expressed in these interviews indicates to us whether the concept is a) one that is unacceptable and unsound; (b) one that meets a real consumer need and has potential for success; or (c) one that is basically sound but requires modification or refinement.

If a concept or product idea is well received, we then move on to laboratory preparation of samples to be used for product testing with selected groups of

consumers. If the idea is still promising after product testing, we then develop a package or container, paying attention to the importance of protection of the product, convenience of size and shape, attractiveness, clear communication of what the product is and how it should be used. This stage is followed by home use tests to find out how families react to the product, how it appeals to various age groups, what frequency of use can be expected, and so on.

Assuming reactions are still favourable, we then proceed with test marketing in selected areas. If, however, reactions were unfavourable, the new product normally would go back to the laboratory for further work and development. At this point, we know whether or not consumers like the new product but we do not know whether, in marketplace conditions, it will represent real value to a sufficient number of people, having regard to price and to the availability of competitive products. Test marketing provides an opportunity to test advertising approaches as well. We can learn at this stage whether advertising prepared to support a new product is communicating clearly and effectively or whether it must be revised.

There is no easy road to success in the new product field in our competitive economy. Retailers will not give shelf space to a slow moving product. A new product, therefore, must sell from the beginning in sufficient volume to make it worthwhile for the retailer to provide space for it on his shelves. Sampling and couponing play an important part of the introduction of a new product and are dealt with elsewhere in this brief, as are other promotion methods.

After test marketing is completed successfully, introduction on a wide regional or a national basis is undertaken. The mass production necessary for a full scale national introduction usually requires a substantial capital investment for new plant and equipment.

In the past five years at General Foods, 26 new products reached the test market stage. Six were discontinued after test marketing and the remaining 20 were introduced to the Canadian market. We apparently were right in 18 of these 20 cases because the products have been accepted by the consumer and are still on the market. On the other two, we must have been wrong for price or other reasons and the products have been withdrawn from sale. They obviously did not represent value to the consumer on a continuing basis even though in earlier stages of testing it was determined that they were products which appealed to consumers.

We would like to take a moment to tell you the stories of the introduction of our two latest products because they illustrate very clearly what is involved. First is Minute Breakfast,—I have a package here; you may have seen it in the stores already—a dry mix which when added to a glass of milk provides the nutrition of a normal breakfast. It is primarily for people who cannot or will not take the time to eat a regular sit-down breakfast. We were aware that research revealed that approximately 50 per cent of all Canadians do not receive the proper nutrition at breakfast and we had a concept of a powdered mix which, when added to milk, could provide a tasty and nutritious substitute for a meal which might otherwise be missed.

We found that in Canada, the Food and Drug Act and its regulations lacked provisions for a food product of this type, so at an early stage it was necessary for us to contact the Food and Drug authorities and to work closely with them in developing specifications for a food sufficiently rich in nutrition to be acceptable to them. Testing and packaging followed the procedures which we have just outlined to you, and last month the product, Minute Breakfast, was introduced in Ontario and Quebec. It will soon be in distribution in the rest of Canada. Minute Breakfast costs the consumer 13 cents per serving to which she adds 7 cents' worth of milk. It takes 30 seconds to prepare. Minute Breakfast provides the essential nutritional elements that could be found in a typical breakfast which would normally cost more and would take much longer to prepare.

Our convenience products are designed to save the consumer time and money where possible.

If you turn to chart No. 9 we show here the comparisons of recipes that were very carefully measured and tested in our kitchens. We had our own home economists prepare the product in our own two plants and then take the recipe and the traditional way of using the standard recipe, and this exhibit does demonstrate too, I believe, that not only in our own products are we offering a convenience, that is savings in time to the consumer, but in many instances we can offer her a saving in money. We also strive to improve quality wherever possible. For example, Minute Rice costs the consumer two cents more per serving, but it saves her 12 minutes as well as ensuring her of a product of consistent quality. Jell-O Lemon Pie Filling saves the consumer both time and money—24 cents and 16 minutes when she bakes a pie.

At an earlier stage of development, we have a new, high-nutrition cold cereal called VIP. Mr. Andrews mentioned it earlier. This, like Minute Breakfast, is an all-Canadian product developed here to meet the needs of Canadian consumers. Before deciding on VIP in its present form, we tested 11 different prototypes until we found one that combined the best characteristics of flavour, crispness, colour and texture, along with an extremely high nutritional level. We do not know for sure whether VIP will move on to the stage of national introduction. It is presently in test market in the Maritimes. We have done all we can, and now are waiting for the judgment of the consumer which in the final analysis is, for this product as for any new product—or for that matter, any old product—the final tribunal.

We hope that these two new products will succeed. We hope, frankly, that they will earn a fair profit for our company and at the same time make a commensurate contribution to the Canadian economy. We know that if they do succeed in the marketplace, they will have added something to Canadian living standards.

Having spent some time telling you about the development of new products, I think it might also be of interest to talk briefly about the work we do in improving existing products. Jell-O is a product which has been sold in Canada for 55 years and which has been part of the General Foods, Limited organization since 1925. Some 80 per cent of Canadian households use Jell-O during the course of a year, and about one-third of the Jell-O users consume at least one package every two weeks.

This old and always popular product has been changing. Within the past ten years, five separate improvements have been made in the product quality. Seven new fruit flavours have been added, thereby doubling the flavour selection available to consumers. A large size package offering both economy and convenience for larger families has also been introduced.

While all of these improvements and changes have involved some expense, it is worth noting that Jell-O today normally retails at a price very close to the price of 55 years ago. It retailed in the earliest days for 10 cents a package and, while it went through subsequent price declines and rises, it now retails normally at about 12 cents per package. Jell-O is frequently featured in supermarkets at 10 packages for a dollar—surely one of the few food products which can be bought by alert shoppers at the price their grandmothers would have paid. At that price, and in the light of the changing value of the dollar, it represents even greater value.

Mr. Andrews: To sum up, ladies and gentlemen, we would like to emphasize these facts:

1. General Foods manufactures and sells to retailing organizations a wide variety of packaged food products, principally in the convenience foods category. Our ultimate customer is the housewife, even

though it is the grocer who buys the product from us, prices it and displays it. There is an ever-growing segment of housewives who demand more convenience in grocery products. They see time-savings or ease in preparation as an added value. To many housewives today, time literally means money.

2. There have been no price increases among the group of General Foods products which generated 97.5 per cent of our gross sales, from March 1, 1965, to September 9, 1966, a period of 18 months.

3. The products on which we have had increases have been more than offset by the products where we have actually reduced the price. The net result of this has been an estimated saving to the Canadian housewife during the period in question of more than $1,000,000.

4. We are a large corporation, but it should be remembered that our total sales account for less than 2.1 per cent of all grocery store sales in Canada.

5. There are some 35,000 grocery stores in Canada today, and you will find our major products in most of them. Alongside our products will be other national brands, as well as the private labels of the grocery trade. We must constantly deliver value to both the consumer and the retailer. If our products do not represent good value at the price, the housewife will stop buying. If she stops buying—Heaven forbid!—the grocer will not stock the product. This is truly one of the freest and most competitive markets in the world.

6. We manufacture a small quantity of private label coffees. These are different coffees from any of our national brands. They contain different blends of beans, cost less to manufacture, and do not contain some of the ingredients that make our national brand merchandise unique.

7. We must recognize the fact that there is constant competition between the manufacturer of branded packaged foods and the grocery store—particularly the corporate chain store. The competition is for the trade and loyalty of the consumer. This is healthy competition and we believe it is necessary in order to make sure that the Canadian housewife constantly gets the most value from her grocery dollar.

8. The food industry is intensely competitive, highly innovative, and is not characterized by excessive concentration. Although profit information is not available for many of the companies, I suspect that the profit levels approximate or are below those of other Canadian industries.

9. Our business grows primarily because of the new products we have introduced and are introducing continuously. In the last five years we have tested and introduced 26 new products in Canada. It is through innovations and risk-taking that the grocery business has grown over recent years and has been able to keep up with the requirements of the consumer.

10. You have seen that our sales volume has increased 59 per cent since our fiscal year 1961. I might here draw to your attention the fact that our net profits, as a per cent of our sales, have been declining during the last two-year period—as our total expenses have increased faster than our sales volume.

11. Since 1960, the growth of our business has resulted in the investment of $25 million to date. This year, we plan to invest $8 million in capital growth. If our plans go well during the next few years—the total will have grown to $64 million dollars for the ten-year period—1960-1970.

Mr. Chairman, that is our submission.

Co-Chairman Senator CROLL: Mr. Urie?

Mr. URIE: Mr. Chairman, Mr. Andrews, as you are aware, we have made a practice recently of investigating the corporate structure of each of the witnesses appearing before us, and, as you have pointed out, we know, we believe, that you are a wholly-owned subsidiary of a United States Company.

Mr. ANDREWS: That is correct.

Mr. URIE: Known as?

Mr. ANDREWS: General Foods Corporation, White Plains, New York.

Mr. URIE: And it is a wholly-owned subsidiary?

Mr. ANDREWS: Our company here is a wholly-owned subsidiary, correct.

Mr. URIE: Does your company or your parent company own in Canada any other subsidiaries, either wholly or with a partial interest?

Mr. ANDREWS: Yes. Our company, General Foods Limited, owns a company known as Hostess Food Products located in Preston, Ontario.

Mr. URIE: What business is that company engaged in?

Mr. ANDREWS: Potato chips. It is a small company, and has no relation to our business, and we operate it completely separately; it is not integrated in any way.

Mr. URIE: So the sales figures for Hostess are not included?

Mr. ANDREWS: No, they are not included or consolidated here. They file a separate statement with the Government.

Mr. URIE: Do you have any figures on gross sales, net sales, profits and so on, with respect to that company?

Mr. ANDREWS: I would rather be more accurate and send them to you as soon as I can, if that is agreeable.

Mr. URIE: Thank you. Have you any other companies?

Mr. ANDREWS: No.

Mr. URIE: In your return under the Corporations and Labour Unions Returns Act you mentioned one Tuffy of Canada.

Mr. ANDREWS: I think that was dissolved a couple of years ago. We do not make the product any more.

Mr. URIE: On chart No. 2 you give a breakdown of the 53 products which you presently market. Is it possible for you to provide to the committee the gross sales figures and net profits figures of those divisions in the same fashion in which they are set out there, or individually?

Mr. ANDREWS: This would be almost impossible, Mr. Urie. As we expressed earlier, and as we mentioned when we exhibited chart A, it is most difficult to spread over the general overheads of the company just simply the cost of running the business. If we sold nothing we would spend to the tune of $20 million, which we call our period cost or general overhead cost. That has to be spread arbitrarily over a number of products, and when you get down to 53 products it is very difficult. We have done it for coffees, packaged desserts, and so on.

Mr. URIE: Can you break them down in those large categories?

Mr. ANDREWS: It can be done.

Mr. URIE: The reason I asked the question is this, that you have stated in your brief that you have increased the price of your cereals some time during the last month by 5 per cent.

Mr. ANDREWS: That is correct.

Mr. URIE: What would impel you to increase those prices if you did not know the costs involved for the individual groups such as you have here?

Mr. ANDREWS: We know the cost involved. I do not mean to mislead you there. Manufacturing costs are precisely allocated. Advertising costs are precisely allocated. The only things that are not precisely allocated are the total overhead costs of running a multi-product plant where 20 different products are manufactured.

Mr. URIE: I can understand the difficulties involved in that. On the other hand, there must be some motive that encourages you to increase the price of your cereals a blanket 5 per cent.

Mr. ANDREWS: Very simple—our material costs have increased since our last price increase by a little more than 5 per cent.

Mr. URIE: By the same token they had increased and decreased up and down for the two or three years prior to that, according to the information that was adduced before the committee this morning—at which meeting I take it you were present. You had met with price increases in an earlier time and yet you did not increase the price of your product. It must have something to do with sales and profit.

Mr. ANDREWS: No, not at all. Now that you have raised the subject of cereals you will see that that is one of the least profitable parts of our business.

Mr. URIE: This is what we want to find out.

Mr. ANDREWS: There it is. I am sorry to say that the cereal business is below average, and always has been. You will notice that we estimate a profit after tax of 3.6 per cent.

Co-Chairman Senator CROLL: That is chart No. 8, I think.

Mr. ANDREWS: Yes.

Mr. URIE: This is what we are driving at. Your net profit before taxes would be 7.4 per cent on cereals.

Mr. ANDREWS: Correct.

Mr. URIE: You heard—perhaps I should not compare your figures with those of the previous witnesses, so I will ignore the question I was going to ask.

Co-Chairman Senator CROLL: I think that that question needs to be asked. If you are not going to ask him then I will do so. You might just as well ask it.

Mr. URIE: Very well. You heard the witness this morning when he indicated that the business of his company was confined practically entirely to dry foods and that his company had a net profit before taxes of something in excess of 23 per cent. Yours, as you point out here, is 7.4 per cent. They also have 50 per cent of the market in this area. What is your explanation for the fact that they can apparently compete with you and make such a high percentage as opposed to your relatively modest percentage.

Mr. ANDREWS: I guess they are just smarter than we are.

Mr. URIE: I find that difficult to believe in an operation of your size. There must be some other explanation.

Mr. ANDREWS: They have a number of unique advantages. One is that they have been able to make a corn flake that we cannot duplicate. We have been trying to make a corn flake in our plant at Cobourg which is just as good as their for the past 20 years, but we never have been able to do so. They must have a secret way of doing it. But when you come right down to it, in the food business,

Mr. Urie, success is usually coupled with good products, and that company has excellent products. Some of our products are not quite as good as theirs, I am sorry to say, in the home use tests that we have conducted.

Mr. URIE: What percentage of the cereal market do you have?

Mr. ANDREWS: Currently around 12 to 13 per cent.

Mr. URIE: Would it be true to say that if you had a larger share of that market your net profit would show a substantial increase? In other words, what I am asking is: Because Kellogg's have 50 per cent of the market, would that be part of the reason why they have such a high net profit?

Mr. ANDREWS: No, I would not say so, Mr. Urie. That does not necessarily follow. They have an organization dedicated entirely to, and concentrated on, the manufacture and sale of cereals. They do an excellent job. They have good products. We must spread our energies and attention over 53 products, and occasionally I suspect we do not do as well as we should on Post.

Co-Chairman Mr. BASFORD: I have just a supplementary question in regard to your remarks about your problems with corn flakes. The 1960 Stewart Commission said this, referring to the Breakfast Food industry:

> But no one of the firms has a magic formula. There is no physical characteristic of the products which could not be duplicated by any competent competitor.

I take it that you would not agree with that statement.

Mr. ANDREWS: I would not agree with that, and I will tell you why. The only measure of value, and the only measure of quality, in the food business is what the housewife or her husband thinks when they put the product in their mouths. It is very easy to say that technically these things can be duplicated, but I defy anybody to duplicate our blend of coffee, for instance. It is a secret we guard very closely.

Co-Chairman Senator CROLL: Then, we have not asked for enough information.

Senator THORVALDSON: The real fact is, Mr. Andrews, is it not, that Kellogg's Corn Flakes are of the best quality in the world? They certainly are so far as I am concerned.

Co-Chairman Senator CROLL: He has said that. There is no need to repeat it.

Senator THORVALDSON: Is not that the answer? There is no corn flake except Kellogg's?

Mr. ANDREWS: It is certainly one of the major answers.

Senator HOLLETT: Have you any control over the price charged by the retailers for your goods?

Mr. ANDREWS: None whatsoever, sir. We sell our products to the retailers.

Senator HOLLETT: And they charge what they like?

Mr. ANDREWS: Yes.

Senator HOLLETT: There is our big problem.

Mr. URIE: Mr. Andrews, I understand that your parent company derives from 35 to 45 per cent of its gross sales from its coffee? From our information this appears to be the case. Would you say that this is about the same proportion in your business in Canada?

Mr. ANDREWS: Generally, yes. It is in that area.

Mr. URIE: It was also said in the information we obtained in that regard that the net profits of your parent company had declined somewhat in this year for two reasons, apparently: first, new product introduction and, secondly, a decline

in coffee prices. Our information did not say a decline in coffee sales. Have you found this to be the case in your experience in Canada?

Mr. ANDREWS: Let me make it quite clear, Mr. Urie, that what goes on in the United States has no effect on what we do in Canada.

Mr. URIE: I did not intend to imply that.

Mr. ANDREWS: I want to make quite sure that the record in respect of this is not misunderstood. We operate a completely separate company. We apply the same basic good management policies that we try to apply all over the world but other than that we are a quite independent organization.

Coffee prices vary in the United States, and they vary here. There have been lots of times, for instance, when we have had price declines in Canada and nothing has happened in the United States. The price of coffee varies according to the price of green beans. Now, this price can vary. I hope I am not getting too complicated. This can vary tremendously, depending upon the blend of green bean that goes into the particular product. For instance, the cheapest beans will sell for around 30 cents a pound, and the most expensive for around 50 cents a pound on the market in New York, which is the major market. These are blended, so 100 per cent of the most expensive would be 50 cents a pound, and 100 per cent of the least expensive would be 30 cents a pound. These changes are because the products and the blends of coffees we sell in the United States and in Canada are quite different. So, it is very difficult to judge what goes on in the States with what goes on in Canada concerning pricing.

Now, the price of coffee in the last 18 months is lower than it was in the previous 18 months. We lowered our price. As a matter of fact, the price of instant Maxwell House coffee today related to the composite cost of the green bean blend—what goes into it—is lower than at any time in history, and this is simply due to the fact that we have spent millions of dollars on improving our facilities in Lasalle, where we have one of the most modern soluble coffee plants in the world. We have been able to reduce our costs over the last five years, and our costs in relation to green beans is lower than it was over the last five years. This is the only true measure, and we can furnish these figures if you want to see them.

Mr. URIE: I think we would like to see them.

Mr. ANDREWS: Certainly.

Senator THORVALDSON: If I might just follow through on the price of coffee, I think a suitable comparison is contained on chart 7 where you have instant Maxwell House priced per case in February, 1965 at $29.75. That was reduced apparently by $1.50 a case, down to $28.25. Could you give us the anatomy of that, while you are on the point of the price of coffee. How have you been able to reduce that price that much?

Mr. ANDREWS: There are two reasons, senator. One is, as I mentioned to Mr. Urie, the price of the green beans which fluctuates widely, by the way. It is not as wide a fluctuation now with the world control forces as it used to be. As you know, all of the governments of the western world control the price of coffee, but it still fluctuates a little bit, and last year it was down a bit from the price of the previous years—down to the point where a price decline seemed to be in order. There was that fact, plus the fact that our manufacturing costs have declined. So, I think we at that time initiated a price decline—a lower price of coffee.

In addition to those facts, the price will vary tremendously over the period of a year as we reduce it with buying allowances, which are passed along in almost every case right to the consumer, or the off-labels that I mentioned earlier. You will see the prices of coffee all over the place every weekend, because the grocer loves to use coffee as a feature to encourage traffic.

But, to answer your question I will say that basically it is due to better technology and lower raw material costs.

Mr. URIE: I think you have answered my question in part, but what I was really driving at was this: As I indicated, the statement was made that the net profits of your parent company were declining partly due to the fact that the price of coffee had declined which would be indicative of the fact that the profit element in coffee was declining. The qustion I was asking was: Has the profit element in the sale price of your coffee declined during the last period. I notice from your chart 7 that your net profit out of coffees, before taxes, is about 13.4 per cent and about 6.5 per cent after. Is that about the same figure you have had over the past period of years?

Mr. ANDREWS: I could not answer that right now; I don't have the information with me.

Mr. URIE: Would it be possible to give it to the committee? Could you give them the information as to what your experience has been in coffee?

Mr. ANDREWS: Yes, I think we could.

Mr. URIE: I notice that 35 to 40 per cent of your gross sales has been in coffees. What is the next biggest item in your sales volume?

Mr. ANDREWS: I think it would probably be packaged desserts. That would be my best guess.

Mr. URIE: You have 13½ per cent before taxes, and is that roughly the figure prevailing during the past period of years or could you supply us with the figures on this?

Mr. ANDREWS: Yes, but may I caution the committee. We will give the figures you ask, but I should tell you that they will be estimates because you are asking us to do the tremendous task of allocating these costs through 53 different lines. I shudder to think what it will do to the computer.

Mr. URIE: I realize it will be difficult. We will discuss it in the committee and decide exactly what we want. Now, do you make any payments to your parent company in the United States for licences, research, advertising or anything of that nature, and if so on what basis do you make these payments?

Mr. ANDREWS: We have an overall licensing arrangement with our parent company in White Plains in the States. This covers a number of things such as permission to use approximately 150 patents that the parent company owns in Canada and which we are entitled to use. It covers secret processes and the technical knowledge developed over the past 50 years. We must also consider the availability of very experienced engineering talent and as an example of this I would mention that we have one man who does nothing but travel around to our plants around the world, and they number 100. He just drops in from time to time. He is a specialist in high-speed packaging. Another is a specialist in a very esoteric form of coffee production.

There are hundreds of such people in New York and we can call upon them at any time. We can call on the facilities of our research centre in Tarrytown, New York, the largest food technological laboratory in the world, and there you will find specialists in such things as food texture, food colouring, flavour, and nutrition. We have a whole group of people working there on how to feed the undernourished people in the world. There are 500 scientists there. We can call on their help and assistance when we need it. We also have our own research centre, a $1½ million development, in Cobourg and in future we should be able to do most of our own work right here in Canada. There is a conglomerate of percentages based on these various products; last year it was 1.57 per cent —about $1½ million for that year, paid to the parent company.

Senator THORVALDSON: I have a supplementary question. I think, Mr. Andrews, you will recognize that part of the function of this committee is to

determine if there is undue profiteering by food companies and processors and people engaged in the food trade. You will agree that any arrangement you have for paying either royalties or management fees or whatever they may be to your parent companies is not an arm's length transaction. Would you care to explain how we can be satisfied that there is not an undue amount being paid to your parent company which would lead to a very modest profit for the Canadian company as indicated by your statement?

Mr. ANDREWS: Yes, in the first place I should say the contract had to be approved by the Department of National Revenue and the Government looked very carefully, I assure you, whenever it was put into effect.

Secondly, this is a two-way street; there are clauses in the contract which call for negotiations for reverse royalties on any patents or processes coming out of Canada. This same type of arrangement is made with all our subsidiaries in foreign lands. This is a typical arrangement and is the same for all subsidiaries.

Mr. URIE: Why would it be related to profits rather than to direct payment for services rendered?

Mr. ANDREWS: I don't know. I was not there when the contract was originally negotiated. I understand this is considered by the Canadian Government to be the better way of doing it. An agreement on a lump sum can be arbitrarily changed but an agreement on percentages and sales has great logic.

Mr. URIE: But it also enables money to be siphoned out of a subsidiary company and given to a parent without regard to services rendered. After all you pay your accountants and your lawyers on the basis of services rendered. I would think that the type of services made available to you by engineers and people like that might well be paid for on the basis of services rendered.

Mr. ANDREWS: Again, for the sake of the record, let me make it clear I do not think it is unfair.

Mr. URIE: It may well not be.

Mr. ANDREWS: What is the trade mark and the ability to make Jell-O worth over a period of years? It is perhaps one of the most famous trade marks and products in the world.

Mr. URIE: But it is not as though you licensed me to use the word "Jell-O".

Mr. ANDREWS: All right, but I will wager you for the sake of illustration, if I may, that if some independent company in Canada went down to New York and knocked at the White Plains door 20 or 30 years ago and said "We would like to make Jell-O", I wager the rate would be very much more than 2 per cent. I think the licensing agreement to make a well established product such as "Jell-O" or "Maxwell House" would mean a great deal of money.

Senator THORVALDSON: Arising out of that, I don't want to be unfair in my question, but I am presuming for the purpose of the work of this committee that the main protection to the Canadian consumer in regard to this problem is the Department of National Revenue. I am aware that they have to decide, naturally, if payments of this kind are fair in cases where the parties are not at arm's length.

Mr. ANDREWS: You are quite correct, but there are no other management fees other than that.

Co-Chairman Senator CROLL: Mr. Allmand.

Mr. ALLMAND: Mr. Andrews, how do you sell to your retailers? What is the method? Do you have a contract with certain retailers or with supermarkets to supply to them so many cases of food over the year? Or do you sell week to week?

Mr. ANDREWS: I would like to ask Mr. Poirier, our Sales Manager, to answer that. He covers the country.

Mr. POIRIER: As we mentioned before, we sell on a national basis and at the same price whether the wholesaler is located in Newfoundland or in British Columbia. We sell to wholesalers or to chains operating a warehouse because they have to redistribute the same as a wholesaler has. But we still have the one price; it is the same for everyone. There are no volume discounts. You can buy 25 or 25,000 cases. We also average our freight rates so that a case of Jell-O in Newfoundland costs the same as it does in Cobourg where it is produced.

Mr. ALLMAND: Does your price change very often or is it set for the year?

Mr. POIRIER: We have indicated in the brief that in the last 18 months we have had no changes.

Mr. ALLMAND: Generally speaking do you have one price for the product you have, or does the price vary over the year, or do you try to maintain it for a period until you make a policy change to change it?

Mr. ANDREWS: Now we are getting into questions of pricing policy. We change our prices from time to time, sometimes up and sometimes down.

Mr. ALLMAND: How often, usually?

Mr. ANDREWS: It all depends on so many things: the cost of raw materials, for instance, in our recent price increase in the cereal business; or the price of green coffee beans could go down to such a point we decided this was a permanent spot and not a temporary dip, and then we might decide to change the price and lower it. It varies in all our business. To be quite honest, the reasons for bringing about a price change are many and varied.

Mr. ALLMAND: How do you plan your production? Let us say in the various areas of frozen foods and packaged desserts, do you plan your production a year in advance? Do you decide this year you are going to produce so much of frozen fish and so much of frozen vegetables, and so on? How do you decide how much you are going to produce in relation to this one price you have?

Mr. ANDREWS: The first thing we do is to try to predict how many packages the consumer will take off the grocery store shelf. We start with the original market, and try to predict, in terms of units, and obviously in our planning from year to year we have to make these estimates; and we will set up a gauge or estimate for our production requirements, and that is the basis of our planning. We will assume certain standard costs, which is common in our type of business; we will assume a certain price; and we will assume certain other expenses.

Mr. ALLMAND: Do you plan your production to get the best supply-demand ratios to give you an opimum profit?

Mr. ANDREWS: That is an interesting question. Could you explain that?

Mr. ALLMAND: On page 18 of your brief you say you have no set policy on pricing.

Mr. ANDREWS: That is right.

Mr. ALLMAND: As a matter of fact, you say:

> There is no pat formula for pricing. We do not employ fixed or percentage mark-ups, nor do we rely blindly on laws of supply and demand. Each pricing situation is unique,. . .

You say you have one fixed price across Canada for a certain product in a given period of time.

Mr. ANDREWS: Until it changes.

Mr. ALLMAND: In other words, it is not competitive from district to district in Canada; nor does it depend too much on what your competitors do from day to day; and we have also heard from other witnesses that the price depends on supply and demand. We know that people can control supply so that they can get

the optimum profit from the market. In other words, if they supply too much maybe their price would be lower and they would have a lower profit.

Mr. ANDREWS: Let me give you an example. You mentioned the supply and demand method. One of our businesses is Bird's frozen foods. In this particular business we buy nothing from the producer, the farmer. We have an arrangement with a frozen food plant in Quebec to take care of our national requirements. We take the top 25 per cent of the fancy grade, and he takes the rest, and that is the agreement we have. Obviously, the price of peas, which is an agricultural commodity, goes up and down with the laws of supply and demand—I think you would agree to that.

Mr. ALLMAND: Yes.

Mr. ANDREWS: Therefore, that sets our cost for that year's supply of peas. When we know what that cost is we will set our price, and hopefully we will get that price; but so often in this type of business some competitor who is selling frozen peas will decide to lower the price to get rid of the pack so he will not have to keep it frozen for another two years. So this is an area of the business where supply and demand does function.

Mr. ALLMAND: Would you, in setting the price of your different products, set that price as high as you could, as long as you think your production will be taken off the market at that price?

Mr. ANDREWS: Not necessarily at all.

Mr. ALLMAND: Why would you not do that, if you are out to make a profit?

Mr. ANDREWS: If you set the price too high and the consumer does not buy it—

Mr. ALLMAND: I said as high as you could and still have your production taken off your hands. In other words, you decide you are going to produce 100,000 units and only 100,000 units for that year, will you set the price for them as high as you think that production will be taken off the market? If you feel you could get rid of them at a price, would you set them that high?

Mr. ANDREWS: No, not necessarily.

Mr. ALLMAND: Why not? If you thought you could get rid of them at a dollar, why set the price at lower than a dollar?

Mr. ANDREWS: It is business judgment. There are many times when it might be possible to get the highest possible price in a business like ours, or any business; but I think a responsible manager has other things to consider and perhaps we have decided that we would like to sell more peas in certain areas, and it might be to our advantage to make a more attractive offer to the housewife, and price is one of the things that goes into the value formula. So we could very easily lower the price and sell them off and perhaps thereby increase the Bird's Eye franchise. It is a very complicated thing to break it down.

Mr. ALLMAND: We have had other witnesses here who, after questioning, have more or less told us that if they could get rid of their production in a supply and demand market at a certain price they will set it. They said that supply and demand sets the price. We were trying to get an answer from them as to how they set their mark-up. They said it depends on supply and demand, which means that if you can get rid of your production at a certain price you will take what the market will bear.

Mr. ANDREWS: I understand you are repeating the opinions of other people. We do not buy that.

Mr. ALLMAND: I asked these questions because of your statement on pricing. You do not seem to have any formulas at all.

Mr. ANDREWS: No, we do not.

Mr. ALLMAND: Earlier in your brief you state you are here to make a profit.

Mr. ANDREWS: Of course.

Mr. ALLMAND: An optimum profit. Why would you take a smaller profit than you could get?

Mr. ANDREWS: We want to make a fair profit. There is a paragraph on page 7, I might add that took three of us five days to put together, because we wanted to give the best philosophy on profit we could, and that is it.

Co-Chairman Mr. BASFORD: Could you tell me what a "fair profit" is? —because I am damned if I know.

Mr. ANDREWS: Again, I am sorry. Textbooks have been written on this subject, as you know.

A fair profit is many things. A fair profit is the amount of money stockholders of a business feel they are entitled to get back for their investment, and if they have been used to a certain level of profit for the last 10 years, you can bet your last dollar they will expect to get either that or something a little more. All of you who are stockholders of common stocks, I think, would agree to that. You have to consider the owners of your business. We are a growing business. Our whole philosophy is dedicated to growing through new products; and I believe we have demonstrated our ability to do this over a long period of time. To grow requires the accumulation of a certain amount of capital to buy new plant and machinery and to test new products. It is very expensive. Ours is a large national business and it costs quite a bit of money to do these things. You have to have money to make sure your business grows and to provide for your old age or the future—whatever you want to call it. We have to provide many services, benefits to our employees. In other words, a large corporation has many publics, many responsibilities. We have a responsibility to our stockholders, our own employees, and, obviously, the consumer, the trade to whom we sell, to our suppliers. In the final analysis, I think most business managers make a value judgment decision and hope they will reach this amount. Unfortunately, many of them are bad, because not all businesses in Canada make money.

Mr. ALLMAND: If I understand you correctly, your company does not try to make maximum profits, but a fair profit?

Mr. ANDREWS: That is exactly right, sir.

Mr. ALLMAND: And you feel, if the situation will allow you to make a greater profit, let us say a competitor is on strike or there is a shortage of supply, you will not take advantage of that shortage of supply and maximize profits, even though you know you could get them?

Mr. ANDREWS: It would not be much good. We produce packaged products and they do not go up and down like a yo-yo in price. No, we do not take advantage of situations like that.

Mr. ALLMAND: Say your competitor cuts his price two cents, three cents—do you try and follow very quickly? I had the impression you would not try and follow.

Mr. ANDREWS: Here again, that all depends. It is a free market place, and I think you agree that the grocery store today is one of the freest. Prices do change. For instance, prices are constantly changing on ground and instant coffee across Canada. A lot is being done for the retailers to decide the smart thing for them to do. This goes up and down. Occasionally we will run a buying allowance which would lower the price of, say, Instant Maxwell House 20 cents a jar. Sometimes our competitors do the same thing, or not. It all depends. What we are trying to do with pricing is to give good value to the consumer over the long run, because if we do not we are out of business in the long run. The housewife shops for our products every week. I think there are some 350 million packages

sold a year of General Foods products, and we are kept absolutely and completely honest by the housewife, because if she does not want to buy it at the right price, she will not.

Mr. ALLMAND: On page 21 you discuss "cents-off" policy and say you feel it is a valid one if it is used properly.

Mr. ANDREWS: Yes.

Mr. ALLMAND: In order for us to judge whether it is used properly, I wonder if you could give us the history of a product you use—if you could give us a year and show us from this date to this date the regular price and "cents-off" listed for two weeks, so we could see how often you had "cents-off" as compared to the regular price? In the United States they have just had an examination of this cents-off policy. They had a bill in the United States Congress with respect to it. You said you consider that your cents-off policy is a reasonable one and I want to see the ratio in time of cents-off to regular price. Could you produce it?

Mr. ANDREWS: I cannot do so from memory. We can, of course, give you the last year on Instant Maxwell House.

Mr. ALLMAND: Would you do that?

Mr. ANDREWS: Yes.

Mr. ALLMAND: It would be helpful.

Mr. ANDREWS: I believe you asked another question.

Mr. ALLMAND: No, I was making a comment.

Mrs. MACINNIS: You said that you reduced the price of Instant Maxwell House coffee. What I want to find out is how much of that, if any, was due to the pressure of the housewives boycott?

Mr. ANDREWS: I hope I am not disappointing you; but really, nothing. Our volume was going down. We were not selling as much as we thought we should and so we used this device to lower the price because, of the millions of housewives that buy Instant Maxwell House, there is always a group very much concerned with price. We call them the "price buyers". They may be 10 per cent or 20 per cent of a market. If you offer them a bargain, they normally will buy a product, provided it is a good product. I hate to get commercial, but when we run a label on it, Instant Maxwell House, it always is successful and it almost walks out of the store.

May I add one thing. Mr. Hurlbut has pointed out to me that we made that decision on the label away back on September 1—and I believe that was before the boycott began.

Mrs. MACINNIS: In the frozen foods industry, how many competitors of Bird's Eye do you have?

Mr. ANDREWS: Dozens.

Mrs. MACINNIS: There are dozens?

Mr. ANDREWS: I would say at least a hundred.

Mrs. MACINNIS: In Canada?

Mr. ANDREWS: Yes.

Mrs. MACINNIS: You mentioned that you made a private label for Canada and it was of a different type. Do you make private labels for other foods besides coffee?

Mr. ANDREWS: There is a small product. We make a drinking chocolate—cocoa.

Mrs. MACINNIS: You bought your frozen foods from another plant, anyway?

Mr. ANDREWS: That is quite right.

Mrs. MACINNIS: All the products you have here are famous brand names, jellos, Bird's Eye and so on. I wonder whether these were companies you had bought out at one time or another?

Mr. ANDREWS: Not in Canada.

Mrs. MACINNIS: But in the United States?

Mr. ANDREWS: The parent company in the United States, in the 1920's, 1930's and the early 1940's, acquired a number of companies.

Senator O'LEARY (*Antigonish-Guysborough*): I must first modestly say that I appreciate your recognition of the good judgment and good taste of the maritimers. I would like to know what your reason was for testing your new VIP cereal in the Maritimes?

Mr. HURLBUT: In selecting a test market, we attempt to find one that would be reasonably representative for that type of product, representative of all Canada. In this particular type of product, the Maritimes have a consumption that would appear to compare favourably with other parts of Canada. That was the prime reason. We have several other products in test markets in different cities, and it is also desirable not to concentrate the test market activities in one region.

Senator O'LEARY (*Antigonish-Guysborough*): With respect to cereals in the five per cent increase, I would assume that it came into effect following September 9.

Mr. ANDREWS: Yes.

Senator O'LEARY (*Antigonish-Guysborough*): Therefore, on page 42, number 2 of your conclusions, as to no increases among 97.5 per cent of your gross sales—when questioned, I believe you said that your overall cereal sales constituted about 11 to 12 per cent of the Canadian total?

Mr. ANDREWS: Yes, our share of the cereal business is around 12 per cent.

Senator O'LEARY (*Antigonish-Guysborough*): This 2½ per cent of your gross sales would really not have any bearing on the circumstances of the price rise?

Mr. ANDREWS: I am sorry, I do not follow you there. What 2 1/2 per cent?

Senator O'LEARY (*Antigonish-Guysborough*): You have 97½ per cent of gross sales that you say you had increases in them, therefore there is 2½ per cent left?

Mr. ANDREWS: That is quite right—before September 9. After September 9, sometime last month, we did initiate a price increase in cereals. The figure I give you for the million dollar savings includes the price increase on both cereals. We are not misleading you. As of now, of all the price increases and decreases, the savings to the Canadian housewife is a little over one million dollars a year.

Senator O'LEARY (*Antigonish-Guysborough*): This statement I accept up until September 9, but we would expect there would be a change in the picture in the coming year.

Mr. ANDREWS: It is still a million dollars.

Senator O'LEARY (*Antigonish-Guysborough*): I want to question that million dollars, because you combine the two on page 43, number 3.

Mr. ANDREWS: Yes.

Senator O'LEARY (*Antigonish-Guysborough*): And you state that your increases are even more than offset by decreases.

Mr. ANDREWS: Yes, sir.

Senator O'LEARY (*Antigonish-Guysborough*): And the net result, you go on to say, of this has been an estimated saving to the Canadian housewife of one million dollars. Did you mean there the combined net result of your increases and your decreases?

Mr. ANDREWS: Yes, sir. I can make it a little simpler for you perhaps by saying that, as of September 9—that is an arbitrary date we selected for obvious reasons—as of September 9 we had saved the housewife $1,600,000. The price increases that we initiated last month will run, in annual terms, approximately

$400,000 a year. If you subtract that from $1,600,000, you get a figure of $1,200,000. That is why we selected $1 million as a conservative figure, because of the difficulty in getting a little closer.

Senator O'LEARY (*Antigonish-Guysborough*): What is your figure for actual increased cost?

Mr. ANDREWS: The figure I gave you is the net.

Senator O'LEARY (*Antigonish-Guysborough*): But you had to arrive at this net by two processes, in one of them you had to figure the increased overall cost.

Mr. ANDREWS: Yes, of course. I do not know what the actual figure was. Let us say it was $3 million worth of increases and there were $4 million worth of decreases, the net saving would be $1 million.

Senator O'LEARY (*Antigonish-Guysborough*): This is your side of the coin, I can understand that, but I thought you might like to go into detail a little further.

Mr. ANDREWS: No, but if you would like to have it, our comptroller will be happy to give it.

Senator O'LEARY (*Antigonish-Guysborough*): I would like to know.

On chart No. 3, "Selling" I notice a constant increase from 1961, from 3.3 to 6.00 in 1966. What is actually included in these selling costs?

Mr. HURLBUT: I think I can give most of the elements. The field sales force, our people at head office, the sales accounting, all of the administrative staff which would serve in this marketing area—that is, the field force plus the head office. We also have some broker's selling costs. One of our brands is sold by a broker and that would be included as well.

Senator O'LEARY (*Antigonish-Guysborough*): Would you categorically state that these selling costs do not include a portion of promotional costs, which I notice had a considerable reduction.

Mr. HURLBUT: There are no promotional costs in it. I have thought of one other cost, marketing research and development, but no promotional costs.

Senator O'LEARY (*Antigonish-Guysborough*): Perhaps you heard a witness this morning tell us about the merits of pre-cooked cereals, breakfast foods?

Mr. ANDREWS: Yes.

Senator O'LEARY (*Antigonish-Guysborough*): Do you agree with his analysis of its nutritional value, as regards most pre-cooked cereals?

Mr. ANDREWS: You are referring here to the ready-to-eat cereal, which is corn flakes, honeycomb and that sort of thing.

Senator O'LEARY (*Antigonish-Guysborough*): Yes.

Mr. ANDREWS: Yes.

Senator O'LEARY (*Antigonish-Guysborough*): You think they have a high nutritional value, do you?

Mr. ANDREWS: Yes, they do. This has been supported by many experts. This is a very nutritious breakfast.

One of the best things about it, which I think Mr. Robinson emphasized this morning, is that children like it and it is quite often the easiest way for a mother to get a good breakfast into the child.

Senator O'LEARY (*Antigonish-Guysborough*): By contrast, how would you compare this one here? (Indicating a package) Here is your chance.

Mr. ANDREWS: We make them both. This is a product designed for a special segment of the market. I believe you heard Mr. Robinson this morning describe his two teenage daughters and their breakfast habits. Well, I have one also. Unfortunately, a lot of people are in too much of a hurry to eat a good breakfast and this, basically, is for them. We are not suggesting that everybody start drinking breakfast. That would be a little foolish. I did not mean it that way. However, Mr. Hurlbut has a few statistics to elaborate on that point.

Mr. HURLBUT: Actually, I think these statistics are rather astounding, but apparently 50 per cent, as I mentioned in the brief, of Canadians do not really take the time to have a good breakfast. However, I think something more significant, talking about teenage daughters, is that female teenagers apparently amount to 55 per cent of those who do not have a good breakfast. In total, boys and girls, about 3,500,000 teenagers or young children do not have a proper breakfast because they do not wish to take the time or because they just do not want to bother.

So this product was designed, as the advertising says, to be the next best thing to a sit-down breakfast.

Senator O'LEARY (*Antigonish-Guysborough*): This is rather an uninteresting question, but have you other flavours besides chocolate and banana?

Mr. ANDREWS: I am glad you asked that.

Senator O'LEARY (*Antigonish-Guysborough*): I just wondered if you had orange, in view of your experience with orange and the money you lost on it.

Mr. ANDREWS: Thank you very much for asking. We have chocolate, chocolate malt, strawberry, coffee, banana and french vanilla flavours too.

Co-Chairman Mr. BASFORD: Senator O'Leary, I think we are wandering just a little.

Senator O'LEARY (*Antigonish-Guysborough*): Thank you. I am through. You can let somebody else wander now.

Co-Chairman Mr. BASFORD: Mr. Scott.

Mr. SCOTT: (*Danforth*): Does General Foods have much export business?

Mr. ANDREWS: General Foods Limited here in Canada?

Mr. SCOTT (*Danforth*): Yes.

Mr. ANDREWS: Not much. We ship all the Grapenuts to England, for instance, but most of our products we do not, since the tariffs in the other countries are so high that it is impossible to do it economically.

Mr. SCOTT (*Danforth*): You do not ship to the United States, then?

Mr. ANDREWS: No.

Mr. SCOTT (*Danforth*): Is there any control by your American company over pricing policies here?

Mr. ANDREWS: None at all.

Mr. SCOTT (*Danforth*): I notice from your returns that all of your directors and seven of your officers are American citizens.

Mr. ANDREWS: Are you speaking of General Foods?

Co-Chairman Mr. BASFORD: Mr. Scott, the transcription service is having a little difficulty catching you. Would you speak directly into the microphone?

Mr. SCOTT (*Danforth*): I will try to do that. I just wanted to clarify the picture of the American company and the subsidiaries. Of your directorate all your directors are American citizens and four of the five live in New York.

Mr. ANDREWS: That is quite right.

Mr. SCOTT (*Danforth*): Then, of your officers, seven of the ten are American citizens and five live in New York.

Mr. ANDREWS: That is incorrect, sir. I cannot imagine where you got that information.

Mr. SCOTT (*Danforth*): From reading the Corporations and Labour Unions Return Act.

Co-Chairman Mr. BASFORD: So, if you say that that is incorrect, you are in trouble.

Mr. ANDREWS: Are you talking about General Foods Limited, sir, or are you talking about General Foods Corporation, New York?

Mr. SCOTT (*Danforth*): I am talking about General Foods Limited, 2200 Yonge Street, Toronto.

Mr. ANDREWS: You are probably looking at the document which includes the directorate. We also have four Canadian officers, vice-presidents of General Foods Limited. Now, does that document show four Canadian officers?

Mr. SCOTT (*Danforth*): Yes, it shows Canada. I do not care to read the names, but it shows four Canadians among your officers. That is right.

Mr. ANDREWS: Yes.

Mr. SCOTT (*Danforth*): No, I am sorry. It shows three Canadians.

Mr. ANDREWS: Well, we have had two new vice-presidents in the last couple of weeks so that it is now up to four.

Mr. SCOTT (*Danforth*): Is that a fairly typical set-up for totally owned subsidiaries?

Mr. ANDREWS: I have no idea, sir. Let me explain how the company is really organized. What you have is a technical document. It is quite true that there are some gentlemen who are officers of General Foods Corporation, White Plains, who hold the title of officer and are directors of the company, but our Canadian company is managed and operated by myself and four Canadian vice-presidents. I am the only American officer. I am an American.

Mr. SCOTT (*Danforth*): Yes, I realize that.

Mr. ANDREWS: Yes. But this is the way our company is run. Now, it may look a little different on paper, but, as you know, lots of things look different on paper.

Mr. SCOTT (*Danforth*): I was just wondering if, in view of this set-up, both in officers and directors, there was any control asserted over your freedom to operate in Canada.

Mr. ANDREWS: So long as we run a successful business we are quite autonomous.

Mr. SCOTT (*Danforth*): I wonder about your advertising. I imagine that you draw benefits from the American network advertising products like Maxwell House Coffee and other such products. Do you pay anything for that?

Mr. ANDREWS: I would like to ask Mr. Hurlbut our marketing man to answer that.

Mr. HURLBUT: No, Mr. Scott, we do not pay anything for the United States advertising.

Mr. SCOTT (*Danforth*): But you would draw some benefits from it. It is the same product, is it not?

Mr. HURLBUT: Yes, there is some overflow, and I think you are probably familiar with the market in Toronto and so on. As best we can measure the effectiveness, the weight of advertising, it would be about 5 per cent of our total efforts.

Mr. SCOTT (*Danforth*): Do you make any sort of special packs for retailers at all? Let me give you an example of what I mean. I was written to by a person who said that she had gone to a supermarket and was getting a special sale of peaches or something, and on analysis it turned out that that particular sale was a special pack in which they had removed half of the peach.

Do you make any sort of special packs for retailers?

Mr. ANDREWS: No, none at all.

Mr. SCOTT (*Danforth*): If I could come back to one final question.

Mr. ANDREWS: Just so that the record is clear, the private label coffee that I mentioned earlier might be called a special pack.

Mr. SCOTT (*Danforth*): I understand that, but that is not what I meant.

Now, the last question I want to ask you is about your packages. Have you still got them there?

Mr. ANDREWS: I beg your pardon?

Mr. SCOTT (*Danforth*): Have you still got your cereal packages there?

Mr. ANDREWS: Yes, I believe so.

Mr. SCOTT (*Danforth*): Well, let us take honey combs as an example. It really does not matter.

Mr. ANDREWS: Yes?

Mr. SCOTT (*Danforth*): You were explaining to us how you cannot make equal sizes because of the different composition of the cereals.

Mr. ANDREWS: Oh, we could. It would just cost $5 million.

Mr. SCOTT (*Danforth*): Yes, I got that clear. Mind you, over the long run that is not a tremendous amortization.

Mr. ANDREWS: You would be surprised.

Mr. SCOTT (*Danforth*): Well, we have costed it out also. But take, for example, honey combs. How many sizes do you market?

Mr. HURLBUT: Two sizes.

Mr. SCOTT (*Danforth*): What are they?

Mr. HURLBUT: Six and nine ounces.

Mr. SCOTT (*Danforth*): Is there no possible way to do that in six and 12, since it is the same product?

Mr. HURLBUT: No. As a matter of fact, we did look into that, and we have not got the equipment that will pack cartons sufficiently large to take 12 ounces.

Mr. SCOTT (*Danforth*): All right. Thank you.

Co-Chairman Mr. BASFORD: Senator Inman.

Senator INMAN: Mr. Chairman, I would like to ask Mr. Andrews a question You mentioned about frozen foods, I believe.

Mr. ANDREWS: Yes.

Senator INMAN: Am I right that they go through four firms or operators before they reach the customer? That must add a lot to the cost.

Mr. ANDREWS: I am sorry, I missed that, Mrs. Inman.

Senator INMAN: You mentioned about your frozen foods. You buy 25 per cent of one processor's packaging. Did you say that?

Mr. ANDREWS: I said we bought the top 25 per cent of his grade of vegetables.

Senator INMAN: Then, he would get a profit and you would get a profit and you sell to the wholesaler who also gets a profit and then he sells to the retailer. The retailer must also get a profit. That must add a lot to the package.

Mr. ANDREWS: That is the story of rising costs in the food industry today. Food is handled by very many people. I do not want to bore you with the figures. We have added them up. We were going to put them in the brief and then the brief seemed a little too long, but there are at least 32 steps that we identified in the marketing of frozen peas. There are the labour steps, the transportation steps, freezing and so on.

It would absolutely amaze you how many people have to handle these things.

Senator INMAN: Yes, but the point is that you do not process it yourself, then.

Mr. ANDREWS: No, we do not process it ourselves. We buy it under an annual contract at, we think, a very reasonable price.

Senator INMAN: What I am trying to get at is that this is one reason why these foods are expensive, then.

Mr. ANDREWS: Well, the addition of expenses, Mrs. Inman, at any step of the way will raise the cost of the food product. That is quite right, yes.

Senator INMAN: Another thing: what about Jell-O? Do you process that yourself?

Mr. ANDREWS: Yes.

Senator INMAN: You do that yourself.

Mr. ANDREWS: Yes.

Senator INMAN: How many firms in Canada make Jell-O? Do you know?

Mr. ANDREWS: Only one: General Foods.

Senator INMAN: I have bought others.

Mr. ANDREWS: You may be referring to a little-known gelatin dessert under another brand name.

Senator INMAN: I have a further question. Can you tell me what profit you get out of your potato chips?

Mr. ANDREWS: Not very much.

Senator INMAN: I understand that one potato amounts to about a dollar in potato chips.

Mr. ANDREWS: That is really a business I am not familiar with, but the profit return is far less than the fair profit we were discussing a little while ago.

Co-Chairman Mr. BASFORD: Senator Carter?

Senator CARTER: I would just like to ask a few questions about the brand labels. We have been told by previous witnesses that they have compared private brands with Maxwell brand, that they had them chemically analyzed, tested, and so forth, and they told us that the private labels compare or are equal in quality with national brands. From your brief you do not agree with that?

Mr. ANDREWS: May I correct that. We were just talking about the product we make, coffee.

Senator CARTER: Yes. You do make a profit?

Mr. ANDREWS: Yes.

Senator CARTER: You say you make them cheaper because you have a different blend?

Mr. ANDREWS: Yes.

Senator CARTER: How much difference would there be in the wholesale price of your private labels compared with your regular brand, say Instant Maxwell House?

Mr. ANDREWS: I couldn't tell you precisely. That is a rather detailed figure. I said that it is less, and it is less. Basically the reason is the ingredients that go into it and the fact that it is made during periods when the plant would normally not be operating.

Senator CARTER: We have been given prices that were little more than half that of the private brands.

Mr. ANDREWS: I have seen a large number of price comparisons floating around and I am only interested in the ones on coffee. I get right back to the question of what is value in the housewife's mind, and I maintain, and most of the people in the grocery industry would share this conviction, that value is not price alone, but many other things. This I think is at the root of this whole discussion on private merchandise. You cannot measure anything by price alone,

except perhaps pharmaceutical chemicals, or something like that, but when something goes into your mouth this becomes a very personal choice.

Senator CARTER: When you offer your instant coffee, you have different grades of beans, which run from 30 cents up to 50 cents per pound. Is there very much variation in the blend of beans? I gather that beans are the biggest factor in the ingredients.

Mr. ANDREWS: In coffee raw materials are the largest cost.

Senator CARTER: Would there be very much difference, then, in the price of the beans in a private label compared with regular brands?

Mr. ANDREWS: It depends on what you mean by "very much".

Senator CARTER: Would there be 10 or 20 per cent?

Mr. ANDREWS: Quite easily. Furthermore there are other ingredients. There is a secret process we have which we call aroma for lack of a better name. It is more than that, it is an extraction from the original coffee bean before it is roasted. It is a flavour that only goes into our products, it is a flavour hard to detect. There are all these intangible things going into coffee.

Senator CARTER: Your share of the market, you say, in cereals or groceries is 13 per cent.

Mr. ANDREWS: Yes.

Senator CARTER: Is that cereals or groceries?

Mr. ANDREWS: That figure I gave you was for cereals.

Senator CARTER: I think you said 12 or 13 per cent?

Mr. ANDREWS: Yes, that is correct.

Senator CARTER: What would be the corresponding figure for your coffee?

Mr. ANDREWS: Let us start with the total hot beverage market, which is tea and coffee. Ten to 15 per cent.

Senator CARTER: So that with your special priced aroma, and all this and that, you are selecting, how does competition from other points affect you. Do you still have that?

Mr. ANDREWS: This is a huge market, sir.

Senator CARTER: I am trying to reconcile the two statements that we have been given about the private brands. Some claim they are equal in quality, and others that they are not.

Co-Chairman Mr. BASFORD: The only way to come to a conclusion, senator, is to go out and buy them and sample them.

Senator CARTER: No, the comparisons were given to us on the basis of chemical analysis, by which firms analyse their own brands and make corresponding analyses of competitive brands.

Co-Chairman Mr. BASFORD: I should like to ask a few questions if I may. You state that your profit has been relatively stable as a percentage of gross sales—4.4, 4.9. But in the interim over that period of 1961 to 1966 your gross sales have gone up approximately 33 per cent. What has that return on gross sales done to you as a return on equity?

Mr. ANDREWS: I don't think we are talking about the same figure. You are referring to the period 1961 to 1966?

Co-Chairman Mr. BASFORD: Yes.

Mr. ANDREWS: The increase in gross sales has gone up 59 per cent, according to my calculations. During that period the profit after tax went up 78 per cent. However, if you take 1962 as a base—and all these things are important—sales went up 56 per cent, and profit after taxes, 41 per cent. As you know, it depends on what the base is. What is your question?

Co-Chairman Mr. BASFORD: We have the figures showing profit as a percentage of sales. What is the trend over that period as a return on investment or equity or net worth, whatever criteria you use? It seems a more meaningful figure.

Mr. ANDREWS: I would agree that it is by far. I have attended a number of sessions here and I have seen a number of formulas used for calculating return on funds. I asked our comptroller to give me a list of how return on funds could be calculated for General Foods Limited, and he gave me seven different ways; and I have seen a number of formulas used here.

We did not give you a return on funds today, but could obtain it for you, but I would suggest that the formulas used by all companies should be the same. You can use return on shareholders' equity, return on investment, or add funded debt, or take it off. However, looking at our figures, it would be my judgment that our return on funds, any way you figure it would be much smaller than most of the operators of our size in the food business, whether distributors or manufacturers. It is difficult to say, because we do not have the figures, obviously, of other Canadian companies, but I venture to say that we will be in the same ball park. It has not gone up, and no matter how you figure it it is lower than our United States parent corporation.

Co-Chairman Mr. BASFORD: I think you heard me quoting this morning from the previous Royal Commission report.

Mr. ANDREWS: Yes.

Co-Chairman Mr. BASFORD: Which had selected the breakfast food industry as one that appeared to that commission to be enjoying what they thought were inordinately high profits. Would this apply to your company?

Mr. ANDREWS: Decidedly not. We are not in the breakfast food business. I do not think you could categorize us as being in the breakfast food industry. General Foods is too broad a company. We have 53 products. If you want to call us a major coffee producer then I think that would be closer to it, but then there are so many other things that I do not think that would be accurate.

Co-Chairman Mr. BASFORD: What is the profitability of the breakfast food division over the coffee division?

Mr. ANDREWS: We have showed our best estimate on profit.

Co-Chairman Mr. BASFORD: Is that chart 8?

Mr. ANDREWS: Yes, Chart 8. Here you see the coffee division—well, it is really a conglomerate of our coffee business. We have allocated the overhead, and our best estimate would be 6.5 per cent after taxes, and that compares with a similar and comparable figure I would say of 3.6 per cent for the cereal part of our business.

Co-Chairman Mr. BASFORD: In respect of the increase in cereal prices this last September, who increased prices first—you or Kellogg's?

Mr. ANDREWS: Kellogg's did.

Co-Chairman Mr. BASFORD: You explained, I think, in answer to a question of Mr. Urie that the reason for your price increase following Kellogg's was a 5 per cent ingredient costs?

Mr. ANDREWS: That is right.

Co-Chairman Mr. BASFORD: And that that led to a 5 per cent increase in your price?

Mr. ANDREWS: That is correct, yes.

Co-Chairman Mr. BASFORD: I do not quite follow that, when according to your table the ingredients amount to only 16 per cent of the product.

Mr. ANDREWS: The only significance of that figure of 16 per cent is when you relate it to the gross sales of total cereals. Now, this figure represents our cereal

business for the year March 31, 1966, which is a period of some six or seven months—a period in which there was no price increase. All this is supposed to do is to answer your question, and give you a fair and representative view of our total business, so I do not think that would be too helpful.

Co-Chairman Mr. BASFORD: It seems to me that if the ingredient of a package is 20 per cent, and then that ingredient goes up in cost by 25 per cent—

Mr. ANDREWS: No, sir, these figures—I am afraid we have misled you with these figures. As an example, let us say our sales of cereals were $1 million, in which case our raw materials would be $164,000. A 5 per cent increase in the cost of our raw materials would be about $7,000 or $8,000. Would you agree with that? That is what we did. Costs went up that much, and we increased our prices approximately that much, so the next year on this sort of example the volume, instead of being $1 million would be $1 million plus 5 per cent. It is a tiny amount—$50 thousand. That is a good example, I think.

Co-Chairman Mr. BASFORD: I notice in one of your foot notes you say that you do not engage in co-operative advertising. Are there any other arrangements under which you make payments to the chain stores, or contributions to them?

Mr. ANDREWS: For the sake of the record may I ask you to rephrase—"contribution"—it is a sensitive word. We do not make any contributions.

Co-Chairman Mr. BASFORD: Well, do you make any payments to the chain stores of any type?

Mr. ANDREWS: Yes, we do, under certain very rigid and well defined circumstances.

Co-Chairman Mr. BASFORD: Which are what?

Mr. ANDREWS: Well, we purchase from chain stores and other distributors a promotional package, which is the word I would use. What they represent is a package of promotional activity and value that the grocery store or chain store is prepared to offer to the manufacturer for a certain set price. These prices are published. They are firm, and they apply to all manufacturers such as ourselves. They may include an ad of a certain size in so many papers, and a floor display in so many stores. Sometimes they will reduce the price over the weekend and advertise that, and this is worth so much to the manufacturer. We buy those from time to time at our discretion with no pre-agreed amounts from year to year from a number of our good customers on a completely equitable basis. That is about the best way I can put it.

Co-Chairman Mr. BASFORD: If the promotional packages include advertising would they not be what most people would call co-operative advertising?

Mr. ANDREWS: No, sir. The term "co-operative advertising" is used to describe an agreement between a manufacturer and a customer where a pre-determined amount of sales is set up annually to be used at the customer's discretion for his own advertising purposes.

No, what we do is buy a package: we will not buy a given package at a given price, and quite often it does not include advertising at all. They will just put on a display promotion. Coffee, for instance, is very sensitive to week-end promotions. We like to buy a package that includes a price feature for Maxwell House coffe, or we would buy a package like—well, Jell-O is not too sensitive to price promotions, and here we would like them to display a huge quantity of Jell-O because that would be better from our point of view.

Co-Chairman Mr. BASFORD: Are those the only payments you make to the chain stores—that is, for the purchase of a promotional package, as you have described it?

Mr. ANDREWS: That is right, is it not, Mr. Poirier?

Mr. POIRIER: Yes, that is right.

Mr. URIE: Is that under the heading of "Promotions" in your financial statement?

Mr. ANDREWS: Yes, you will find that under the heading of "Promotions" in our financial statement.

Co-Chairman Mr. BASFORD: I should like now to get some advice from you. Mrs. MacInnes raised this morning the question of premiums in cereals, that are directed to children. I have seen a number of these Honey-Comb packages in which you get cowboys and indians. The package reads:

> Hey Kids! Re-enact the rescue of Fort Cheyenne. A complete fort and indian village to cut out. Plus cowboys, indians, horses, the Honey-Comb Kid. At least three in every pack. You can get your complete set with four different boxes of Honey-Comb 9 oz. *or* 2 different boxes of Honey-Comb 6 oz. and 3 boxes of 9 oz.

Now, these have been sent to me because the women have bought one box and then have found that they could not get a complete fort, and their children are raising hell and they cannot find the rest of the fort in the stores. I do not know about the children, but the mothers are very annoyed at Honey-Comb.

Mr. ANDREWS: If you will give me this lady's name and address I will send her the rest of the fort.

Co-Chairman Mr. BASFORD: This is pretty smart advertising or promotion, I must admit. People, when they buy one package, find that they really have to buy two others. I do not know but I regard that as—I will not say what I regard it as, but I notice that the 1960 Royal Commission suggested the drawing up of a code of ethics for promotion and advertising business.

Mr. ANDREWS: I do not think that is unethical. I do think it is unfortunate that the supply ran out too soon. I think when a child gets a box like that he probably enjoys cutting it out. It does not cost a cent. It is the cheapest thing in the world to print a box in a different way. I think this can be fun for the children. I do not think it is unethical.

Co-Chairman Mr. BASFORD: But here you are adding to the stress and strain on mothers all over Canada, who cannot find the rest of the fort.

Mr. JOYAL: And you are not helping us to educate our kids in Canadian History. Why do you not have Fort York or Fort Henry on the box?

Mr. ANDREWS: If that is the worst thing she has to worry about then she is lucky.

Mr. URIE: Instead of asking you questions at this late hour, Mr. Andrews, I would like to tell you of something we would like you to produce for us. You have provided us with an analysis of your advertising expense. Could you provide us with a similar analysis of your promotional expense for the same period?

Mr. ANDREWS: Yes, of course.

Mr. URIE: And similarly under the heading "other allowances" in your financial statement you have something like $4,200,000, which represents cents-off; could you give us an analysis of that too.

Mr. ANDREWS: Yes, of course.

Mr. URIE: I have just one other question. This package was left at my house, and I might say my kids like it. I also received one from Toronto. I presume these samples were left at certain houses in each city. Would you be able to tell us, as a matter of interest, how much this sampling costs your company?

Mr. ANDREWS: No, I could not possibly tell you that. Could you, Mr. Hurlbut?

Mr. HURLBUT: I could not be specific. I would think the sample runs in the neighbourhood of 15 cents.

Mr. URIE: For the production and the delivery by the sampling firm that put it out?

Mr. HURLBUT: Yes, for delivery it might be a few pennies higher.

Mr. URIE: 15 to 20 cents?

Mr. HURLBUT: Yes.

Mr. URIE: Can you tell us how many were distributed, so that we have a rough idea?

Mr. HURLBUT: Again, I could not be specific, but it would be in the hundreds of thousands. We distribute those on a random basis. We could not afford, as much as we would like to, to give one sample to every home in the country. It is done on a very fair and equitable basis, such as one for every second or third house.

Mr. ANDREWS: Pardon me—and only in the best neighbourhoods. I am serious, because it would be uneconomic to distribute a product like that in areas where the economic level was not sufficient to enable that area to become a potential customer. This is not the cheapest thing in the world.

Mr. URIE: One other question in connection with this free sample. This has been produced only in Ontario and Quebec?

Mr. ANDREWS: And in British Columbia now.

Mr. URIE: So that this will in turn be repeated in the other provinces and as you introduce it there these hundreds of thousands will become several hundreds of thousands and the amount you will receive on your investment in "Minute Breakfast" in the first year will be very materially reduced by the introduction costs?

Mr. ANDREWS: I would assume that to be the case. We must also remember that we have just started this and we are halfway through our present fiscal year. So we would have six months of this charged to this year.

Mr. URIE: How long does it take for a newly introduced product to become profitable?

Mr. ANDREWS: It varies. I would hazard a guess of a year and a half, although sometimes it might go as long as three or four years, particularly if a new product required a very large investment in a new plant. We have gone into various types of soluble coffee where the investment in a new plant in Canada can be up to $10 million. We could not expect to regain that in a short time. There would be the question of a franchise and we would be building up something that would be with us for years.

Mr. URIE: So that initial promotion costs could be 50 per cent of the total sales in the first year?

Mr. ANDREWS: Now you are asking me to guess, and I hate to guess.

Co-Chairman Mr. BASFORD: Gentlemen, your chairman has been informed that one of his bills is coming up in the house.

Mr. ALLMAND: One last question, Mr. Chairman.

You said you bought your frozen foods from another manufacturer. Does he produce his own national brand?

Mr. ANDREWS: No, I don't believe so. He is just a small packer in Quebec.

Mr. ALLMAND: Does he produce for any other national brand?

Mr. ANDREWS: Not to my knowledge, no.

Co-Chairman Mr. BASFORD: Thank you very much indeed for a very comprehensive brief and for the material you have supplied to us and which you are going to supply to us.

The committee adjourned.

CHART NO. 1

	Cost	Number of Employees
Headquarters		
Toronto, Ontario	Lease	300
Plants		
Cobourg, Ontario	$15.2 Million	758
LaSalle, Quebec	$14.7 Million	529
Warehouses & Sales Offices		
Moncton, N.B.	$300,000	21
LaSalle, Quebec	Part of Plant	68
Cobourg, Ontario	Part of Plant	65
Winnipeg, Manitoba	$600,000	30
Vancouver, B.C.	Lease	34
		1,805

CHART NO. 2

PRINCIPAL PRODUCTS

GENERAL FOODS, LIMITED

Coffees	
Regular Maxwell House	0
Regular Sanka	0
Regular Yuban	0
Instant Maxwell House	−
Instant Sanka	−
Instant Yuban	−
Other Beverages	
Sun-Up	0
Tang	0
Kool-Aid	0
Ready-Sweet Kool-Aid	0
Jiffy Instant Chocolate	−
Baker's Cocoa	0
Instant Postum	+
Cereals	
Post Alpha-Bits	0
Post Sugar Crisp	0
Post Crispy Critters	0
Post Crispy Numbers	0
Post Grape Nuts Flakes	0
Post Grape Nuts	0
Post Bran Flakes	0
Post Honeycomb	0
Post Treat Pak	0
Dog Foods	
Gaines Dog Meal	−
Gravy Train	−
Rally	0
Gaines burgers	0
Baking Ingredients	
Baker's Chocolate	0
Baker's Chocolate Chips	−
Baker's Coconut	0
Swan Down Cake Flour	0
Calumet Baking Powder	+
Other Grocery Products	
Minute Rice	0
Minute Spanish Rice Mix	0
Certo Liquid and Crystals	+
Good Seasons Salad Dressing Mixes	0
La France Instant Bluing	0
Frozen Foods	
Birds Eye Gourmet Vegetables	0
Bird Eye Orange Juice	−
Bird Eye Vegetables	+
Bird Eye Fish	+
Bird Eye Potato Products	+
Awake Orange Drink	0
Desserts	
Jell-O Jelly Powders	0
Jell-O Instant Pudding	0
Jell-O Pudding and Pie Filling	0
Jell-O Tapioca Puddings	0
Jell-O Lemon Pie Filling	−
Whip 'n Chill	0
Dream Whip	0
Bird's Custard Powder	0
D'Zerta Gelatin	+
D'Zerta Puddings	+
Minit Tapioca	0

− REDUCTION + INCREASE 0 NO CHANGE

BOX SCORE 9 REDUCTIONS 8 INCREASES 36 NO CHANGES

CHART NO. 3

SIX-YEAR PROFIT & LOSS TABLE

Fiscal Years Ended March 31

	1961	1962	1963	1964	1965	1966
Units Sold (Millions)	12.3	12.4	13.4	14.0	15.1	18.2
	$ Mill.	$ Mill.	$ Mill.	$ Mill.	$ Mill.	$ Mill.
Gross Sales	61.4	62.6	67.9	76.1	86.6	97.6
Transportation	2.1	1.9	2.1	2.2	2.2	2.5
Warehousing	.5	.5	.6	.7	.8	.9
Cash Discount	.5	.5	.6	.7	.8	.9
Sales Tax	.6	.6	.7	.7	.9	1.4
Damaged Mdse	.1	.1	.1	.1	.1	.1
Other Allowances*	1.1	1.1	2.0	2.4	3.9	4.2
Net Sales	56.5	57.9	61.8	69.3	77.9	87.6
Cost of Goods						
Raw Materials	25.2	24.4	25.6	30.4	34.2	33.4
Packing Materials	4.9	5.3	6.2	5.8	6.8	7.8
Labour	3.7	4.1	4.3	4.1	4.5	5.7
Overhead	2.6	2.9	3.8	4.4	4.9	6.1
Total Cost of Goods	36.4	36.7	39.9	44.7	50.4	53.0
Gross Margin	20.1	21.2	21.9	24.6	27.5	34.6
Advertising	6.6	6.2	5.7	6.3	7.3	9.4
Promotions	2.4	2.3	2.5	2.2	3.8	5.9
Selling	3.3	3.6	3.8	4.2	4.8	6.0
Administration	2.1	2.0	2.0	2.1	2.3	2.7
Income Taxes	3.0	3.7	4.1	5.3	4.9	5.8
Profit After Taxes	2.7	3.4	3.8	4.5	4.4	4.8
% of Gross Sales	4.4	5.4	5.6	5.9	5.0	4.9

*These represent invoice reductions such as buying allowances, "cents off" labels, etc. The 1961 and 1962 figures are the best available estimates. The 1963 to 1966 figures are actual.

CHART NO. 4

ANALYSIS OF ADVERTISING EXPENSES—1961-1966

	'61	'62	'63	'64	'65	'66
*All Media Advertising	5,833	5,692	4,843	5,445	6,037	8,204
*Display Materials	247	253	212	357	387	481
*Advertising Production	518	222	607	487	851	668
*TOTAL	6,598	6,167	5,662	6,289	7,275	9,353
%Gross Sales	10.7	9.9	8.4	8.3	8.4	9.6

*Above figures in thousands of dollars.

CHART NO. 5

MEDIA RATE INCREASES*

1961—1966

(1961=100)

PRINT	1961	1962	1963	1964	1965	1966
Newspapers (95 Dailies)	100	107	109	112	117	119
Weekend Magazine	100	112	131	125	131	135
Readers Digest	100	105	112	124	129	134
Chatelaine	100	107	111	114	114	118
RADIO						
All-station average	100	105	109	110	114	N/A
TELEVISION						
CBC Network (½ hour Prime)	100	100	101	111	115	125
Spot (A.A. Time-70 Stations)	100	107	112	121	131	145

*These figures are averages—major elements in newspapers, radio and television have shown even higher increases. Increase 1961/1966 in media accounting for 90% of General Foods' dollar expenditure is a full 30%.

CHART NO. 6

PACKING MATERIALS

Years Ended March 31

	$ Thous.	% To Gross Sales
1961	4,860	8.0
1962	5,280	8.5
1963	6,210	9.1
1964	5,730	7.6
1965	6,830	7.9
1966	7,840	7.9

CHART NO. 7

PRODUCT LIST PRICES

f.o.b. Customer's Warehouse

	Price Per Case	
	February 1965	July 1966
Instant Maxwell House, 18 10 oz	$29.75	$28.25
Certo, 24 6 oz	7.10	7.45
Regular Maxwell House, 12 1 lb. Bag	9.96	9.96
Jell-o, 36 3 oz	3.50	3.50
Jell-o Pudding & Pie Filling 24 6 oz. Chocolate	3.90	3.90
Dream Whip, 24 4 oz	10.60	10.60
Alpha Bits, 24 15 oz	10.90	10.90
Tang, Orange 48's	9.40	9.40
Kool-Aid 288 envelopes	12.07	12.07
Good Seasons 72 envelopes	10.10	10.10
Gaines Rally 8-4 lb	5.75	5.75

Note: The price record of these products reflects the pattern of price changes throughout our line of 53 products. As indicated earlier in this brief, during the 18-month period ending September 1966, there were 36 products which had no price change, 9 products which were reduced in price and 8 products which were increased in price.

CHART NO. 8

COST ANALYSIS OF TEN COMMODITIES

YEAR ENDING MARCH 31, 1966

	Coffees	Pkg. Desserts	Dessert Toppings	Cereals	Dry Dog Foods	Walter Baker Choc.	Rice	Orange Juice	Frozen Veg.	Other Beverages
Gross Sales	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Transportation	1.5	3.2	1.1	4.1	13.0	2.1	4.1	1.7	6.0	2.1
Warehousing	.5	.8	.4	1.0	2.8	.8	1.0	1.7	5.6	1.0
Cash Discount	1.0	1.0	1.0	1.0	1.0	.2	1.0	—	—	1.0
Sales Tax	—	—	2.9	—	—	4.9	—	—	—	8.4
Damaged Mdse	—	.2	.1	—	—	—	.4	—	—	.1
Other Allow	7.7	1.7	—	1.0	5.5	7.0	—	2.2	.8	1.7
Raw Materials	43.6	27.0	22.3	16.4	33.8	42.7	25.4	99.1	68.9	17.4
Packing Materials	5.7	7.4	7.7	13.4	7.8	4.7	5.9	—	—	10.4
Labour	1.2	1.7	2.4	3.2	1.0	2.5	2.1	—	—	2.0
Overhead	6.5	10.1	17.7	14.8	5.8	20.7	15.1	—	—	8.4
Advertising	6.4	10.4	18.4	17.0	7.2	.7	13.3	.8	.7	15.6
Promotions	4.7	9.6	8.8	13.4	1.3	2.5	4.6	4.3	3.7	8.4
Selling	5.0	7.7	6.9	5.1	5.7	4.0	8.0	4.7	4.2	8.7
Administration	2.8	5.7	3.8	2.2	1.4	2.3	4.3	.9	.7	3.6
Income Taxes	6.9	7.0	3.4	3.8	7.1	2.5	7.7	(8.1)	4.9	5.9
Profit After Taxes	6.5	6.5	3.1	3.6	6.6	2.4	7.1	(7.3)	4.5	5.3

CHART NO. 9

A COMPARISON OF CONVENIENCE PRODUCTS VS. HOMEMADE FROM THE STANDPOINT OF COST PER SERVING & PREPARATION

Product	Wt.	Yield	Cost per Serving	Tot. Prep. Time
Birds Eye Cut Green Beans	10 oz.	4 serv.	7¢	12 mins.
Fresh Cut Green Beans	14 oz.	4 serv.	6¢	22 mins.
Minute Rice	14 oz.	2 cups	4¢	5 mins.
Regal Long Grain	16 oz.	2½ cups	2¢	18 mins.
Fresh Oranges	1 doz.	24 oz.	14¢	14 mins.
Tang	1 pkg.	24 oz.	4¢	45 secs.
Birds Eye Frozen Orange Juice	1 tin	24 oz.	5¢	3 mins.
Jell-O Jelly	1 pkg.	4 serv.	3¢	3 mins.
Gelatin Dessert	1 env.	4 serv.	3¢	12 mins.
Jell-O Instant Pudding	1 pkg.	4 serv.	7¢	1-3/4 min.
Jell-O Cooked Pudding	1 pkg.	4 serv.	6¢	7 mins.
Homemade Cooked Pudding		3 serv.	6¢	20 mins.
Jell-O Lemon Pie Filling	1 pkg.	one 9″ pie	32¢*	9 mins.
Homemade Lemon Pie Filling	—	one 9″ pie	56¢*	25 mins.
Apple Jelly with Certo	5 lb. apples + ½ bottle Certo	12 medium glasses	8¢	45 mins.
Apple Jelly—Homemade	5 lb. apples	5 medium glasses	13¢	3-3/4 hours

* Cost per pie.

First Session—Twenty-seventh Parliament

1966

PROCEEDINGS OF THE SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON

CONSUMER CREDIT

(PRICES)

No. 18

TUESDAY, NOVEMBER 15, 1966

LIBRARY
DEC 13 1966
UNIVERSITY OF TORONTO

JOINT CHAIRMEN

The Honourable Senator David A. Croll

and

Mr. Ron Basford, M.P.

WITNESSES:

Green Giant of Canada Limited: Mr. A. W. Anderson, President and General Manager; Mr. W. B. Eagen, Vice-President, Sales and Marketing; Mr. C. A. Farrow, Vice-President, Production; Mr. R. O. Thrane, Planning Assistant.

Fullerton, Mackenzie & Associates Limited: Mr. D. H. Fullerton, President.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1966

25159—1

MEMBERS OF THE SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON CONSUMER CREDIT
(PRICES)

For the Senate

Hon. David A. Croll, Joint Chairman

the Honourable Senators

Carter,
Cook,
Croll,
Hastings,
Hollett,
Inman,
McDonald (*Moosomin*)
McGrand,
O'Leary (*Antigonish-Guysborough*),
Thorvaldson,
Urquhart,
Vaillancourt—(12).

For the House of Commons

Mr. Ron Basford, Joint Chairman

Members of the House of Commons

Allmand,
Andras,
Basford,
Cashin,
Choquette,
Clancy,
Code,
Crossman,
Duquet,
Horner (*Acadia*),
Irvine,
Lachance,
Leblanc (*Laurier*),
Lefebvre,
MacInnis,
Mandziuk,
McCutcheon,
McLelland,
Olson,
Otto,
Ryan,
Scott (*Danforth*),
Smith,
Whelan—(24).

36 members
Quorum 7

SUPPLEMENTARY ORDERS OF REFERENCE

Extract from the Votes and Proceedings of the House of Commons, September 9, 1966:—

"Mr. Sharp, seconded by Miss LaMarsh, moved,—That the Joint Committee of the Senate and House of Commons appointed by this House on March 15, 1966, to enquire into and report upon the problems of consumer credit, be instructed to also enquire into and report upon the trends in the cost of living in Canada and factors which may have contributed to changes in the cost of living in Canada in recent months;

And that a Message be sent to the Senate to acquaint Their Honours thereof and to request the concurrence of that House thereto.

And the question being proposed;

Mr. Pickersgill, seconded by Mr. McIlraith, moved in amendment thereto,—That the motion be amended by striking out the words "by this House on March 15, 1966" where they appear in the second line thereof and by inserting in the motion as the second paragraph the following:

"That the Committee have leave to sit notwithstanding any adjournment of this House;".

And the question being put on the said amendment, it was agreed to.

After debate on the main motion as amended, it was agreed to."

Extract from the Votes and Proceedings of the House of Commons, October 7, 1966:—

By unanimous consent, Mr. Basford, seconded by Mr. Allmand, moved,—That the First and Second Reports of the Special Joint Committee on Consumer Credit and Cost of Living, presented to the House on Friday, April 1 and Thursday, October 6, 1966, be concurred in.

After debate thereon, the question being put on the said motion, it was agreed to.

Accordingly, the said Reports were concurred in and are as follows:

FIRST REPORT

Your Committee recommends that seven (7) of its Members constitute a quorum, provided that both Houses are represented.

SECOND REPORT

Your Committee recommends that the House of Commons section of the said Committee be granted leave to sit while the House is sitting.

LÉON-J. RAYMOND,
Clerk of the House of Commons.

Extract from the Minutes of the Proceedings of the Senate, September 13, 1966:—

"The Honourable Senator Connolly, P.C., moved, seconded by the Honourable Senator Hugessen:

That the Senate do agree that the Joint Committee of the Senate and House of Commons appointed to enquire into and report upon the

25159—1½

problems of consumer credit, be instructed also to enquire into and report upon the trends in the cost of living in Canada and factors which may have contributed to changes in the cost of living in Canada in recent months; and

That a message be sent to the House of Commons to acquaint that House accordingly.

After debate, and—

The question being put on the motion, it was—

Resolved in the affirmative."

J. F. MacNEILL,
Clerk of the Senate.

MINUTES OF PROCEEDINGS

TUESDAY, November 15, 1966.

Pursuant to adjournment and notice the Special Joint Committee on Consumer Credit (Prices) met this day at 9.30 a.m.

Present: For the Senate: The Hon. Senators Carter, Croll (*Joint Chairman*), Inman, McDonald (*Moosomin*) and McGrand—5.

For the House of Commons: Messrs. Allmand, Basford (*Joint Chairman*), MacInnis and McCutcheon.—4.

In attendance: Dr. R. Warren James, Special Assistant; Mr. Marcel Joyal, Q.C., Associate Counsel; Mr. Jacques L'Heureux, C.A., Accountant; Mr. John J. Urie, Q.C., Counsel.

The following were heard:

Green Giant of Canada Limited:

Mr. A. W. Anderson, President and General Manager.
Mr. W. B. Eagen, Vice-President, Sales and Marketing.
Mr. C. A. Farrow, Vice-President, Production.
Mr. R. O. Thrane, Planning Assistant.

At 12.45 p.m. the Committee adjourned.

At 3.00 p.m. the Committee resumed.

Present: For the Senate: The Hon. Senators Carter, Cook, Croll (*Joint Chairman*), Inman, McDonald (*Moosomin*), McGrand and O'Leary (*Antigonish-Guysborough*)—7.

For the House of Commons: Messrs. Allmand, Basford (*Joint Chairman*), Lefebvre, MacInnis, Smith and Whelan—6.

In attendance: Dr. R. Warren James, Special Assistant; Mr. Marcel Joyal, Q.C., Associate Counsel; Mr. Jacques L'Heureux, C.A., Accountant; Mr. John J. Urie, Q.C., Counsel.

Mr. D. H. Fullerton, President, Fullerton, Mackenzie & Associates Ltd., was heard.

At 5.00 p.m. the Committee adjourned until Thursday next, November 17, at 9.30 a.m.

Attest.

John A. Hinds,
Assistant Chief,
Senate Committees Branch.

THE SENATE

SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON CONSUMER CREDIT

EVIDENCE

OTTAWA, Tuesday, November 15, 1966.

The Special Joint Committee of the Senate and House of Commons on Consumer Credit met this day at 9.30 a.m.

Senator David A. Croll and Mr. Ron Basford, M.P., Co-Chairmen.

Co-Chairman Senator CROLL: There is a quorum. We have this morning the Green Giant of Canada Limited, represented by Mr. A. W. Anderson, President and General Manager; Mr. W. B. Eagen, Vice-President, Sales and Marketing; Mr. C. A. Farrow, Vice-President, Production; and Mr. R. O. Thrane, Planning Assistant. Mr. Anderson, on my left, will present the brief.

Mr. A. W. Anderson, President and General Manager, Green Giant of Canada Limited: Mr. Chairman, honourable senators and members, ladies and gentlemen, we welcome the opportunity to appear before this Joint Committee on Consumer Credit and Cost of Living and hope that what we can offer will contribute to better understanding of food prices and their relation to the Canadian economy.

We regret that we have had so limited a time to get together the materials included in our brief. We affirm our sincere desire to present those facts that you may find to be of value and have tried to present material that we feel is sound.

In 1931, Green Giant Company of Le Sueur, Minnesota organized an affiliated company, Fine Foods of Canada Limited in Tecumseh, Ontario. In 1960, Green Giant purchased almost all of the public interest in the company and we are now organized as Green Giant of Canada Limited. Since that time no dividends have been distributed and these retained earnings have contributed to our growth and development in Canada. We are pledged to the principle of Canadian participation in the ownership of Green Giant of Canada and shall be working to this end over the next several years.

In late 1965, Green Giant Company purchased Clark Foods of Canada Limited and amalgamation with Green Giant of Canada was effected April 1, 1966. On October 17 of this year, the head office of the Company was moved from Tecumseh to 500 Ouellette Avenue in Windsor, Ontario.

We presently have some 500 regular employees and in the peak of our processing season augment these people with some 1,700 seasonal workers. We have plants at Harrow and Tecumseh in Ontario and at Ste. Martine and St. Remi in Quebec. Green Giant of Canada is a processor of quality canned and frozen vegetables and our principal products are green peas, sweet corn and snap beans. We are also now engaged in processing some of the prepared foods which were the principal products of Clark Foods Limited.

Figures contained herein pertain only to the canned and frozen vegetables which have been the traditional products of Green Giant of Canada Limited and for which we have trend and historical information. Because we have not had a full cycle of production and marketing with those products in the Clark line, we

were unable to provide meaningful information in this area of our operations. We suggest that more complete information on these new product lines can be supplied by those companies that have had longer experience in these areas of the food industry.

At Green Giant we recognize that a corporation has basic responsibility to three groups—its consuming public, its employees, and its stockholders. In order to discharge its responsibilities properly, a company must generate adequate profits. Therefore, we recognize the primary purpose of Green Giant of Canada Limited to be the making of a profit over the long term, consistent with being a good corporate citizen.

Only in this way can we discharge properly our responsibilities to:

1. Consumers, by providing constantly improved and new food products distinctive in quality, value and convenience.
2. Employees, by providing opportunity and incentive for maximum self-expression and growth, together with adequate compensation and security.
3. Stockholders, by providing a reasonable return on and growth of their investment.

Our profit margins are not satisfactory measured by these criteria, and in fact, as subsequent figures will show, are dangerously thin, particularly for a basically seasonal business. We must at pack time commit ourselves to inventories representing more than one year's sales. We are presently committing the Company and spending money against 1967 requirements which will be sold through to the 1968 pack. If future events reveal our present projections to be overly optimistic, the cycle becomes increasingly risky.

Shown below are the key figures from our financial statements for fiscal years ending March 31, 1961, through 1966.

GREEN GIANT OF CANADA LIMITED (000's omitted)

	1966	1965	1964	1963	1962	1961
Gross Sales	$ 11,017	$ 9,620	$ 8,185	$ 8,357	$ 7,230	$ 6,807
Net Earnings	334	341	59	134	360	278
% Net Earnings of Gross Sales .	3.0%	3.5%	0.7%	1.6%	5.0%	4.1%

GREEN GIANT COMPANY U.S.A. (Consolidated)

Gross Sales	$139,500	$115,713	$ 97,632	$ 78,195	$ 75,039	$ 67,595
Net Earnings	4,649	3,113	1,812	1,476	2,193	2,202
% Net Earnings of Gross Sales	3.3%	2.7%	1.9%	1.9%	2.9%	3.3%

You will note that in 1961 our net profit Green Giant of Canada Limited was 4.1 per cent and fell in 1965 to 3.5 per cent and dropped further in 1966 to 3.0 per cent. You will also note the wide fluctuation of profit from a high in 1962 of 5.0 per cent to 0.7 per cent in 1964, indicating the high degree of risk inherent in narrow product line and seasonal processing where Mother Nature plays the dominant role.

The consolidated statement of the United States Company shows fairly similar profit margins, but less annual fluctuation, pointing out the benefits accruing to a more widely diversified product line and greater geographical spread of risk.

We would point out here that if the entire net profit of Green Giant of Canada had been passed directly to the consumer in 1965, it would have

amounted to a reduction of slightly more than half a cent per can. In 1966 this would have dropped to slightly less than a half cent per can. In 1964, our net profit amounted to only 1/10 of one per cent per can.

The detailed comparative earnings statement for Green Giant of Canada Limited for 6 years is attached as Exhibit A. We will be referring to this later.

A further substantiation of our profit position by product grouping for the past four years is shown in the summary table directly below.

	1966	1965	1964	1963	
	%	%	%	%	
Canned Peas	(0.1)*	(0.1)*	1.0	2.4	* Loss
Canned Corn	5.1	4.3	1.9	0.3	
Canned Beans	4.8	4.9	0.2	5.3	

More detailed figures for the 1966 year will be referred to later in this brief.

This further points out the fluctuations in seasonal vegetable products. In two out of four years we have shown losses on canned peas.

Advertising and marketing expenses as a percent of gross sales are noted below and are as shown on the comparative earnings statement referred to as Exhibit A.

	(000's omitted)					
	1966	1965	1964	1963	1962	1961
Advertising & Marketing	$625	$532	$495	$458	$491	$415
% to Gross Sales	5.7	5.5	6.1	5.4	6.8	6.1

The above figures include media advertising, cooperative merchandising, consumer promotion, direct mail and dealer helps.

The general trend has been down considering our increasing volume.

The table below shows our cost per ton of raw produce delivered to our plants for the 1964, 1965 and 1966 pack years. These costs shown are adjusted for contract deductions and our own field department labor and overhead. Payments are still being made to growers and some 1966 figures are preliminary.

Cost per Ton	1966 Pack	1965 Pack	1964 Pack
Snap Beans	$ 98.54	$111.50	$ 86.80
Corn	31.26	31.10	28.34
Peas	178.04	132.40	143.22

Costs for cans, cartons and labels are shown below for the period requested. These are averages.

Costs per Thousand—14 ounce size

	1961	1962	1963	1964	1965	1966	% Change 1966 vs. 1961
Tin Cans	$ 32.40	$33.32	$33.32	$34.05	$34.75	$35.45	+ 9%
Shipping Cartons ...	93.35	96.00	96.00	96.00	96.00	99.85*	+ 7%
Labels	2.46	2.46	2.18	2.18	2.18	2.18	− 11%

* Does not include 5% increase as of October 1, 1966. The asterisk refers to shipping cartons. You will notice that labels have gone down 11 per cent. This is a volume situation.

Consumer sizes of most of the products we produce are controlled by government regulations.* As a matter of principle, we believe that container sizes for *basic vegetables* are and should be designed to give the consumer the portion or number of servings he or she wants for the particular circumstances. We all consume different amounts of different foods as our taste dictates, and a lower price per ounce in a larger package does not necessarily mean greater economy.

Families vary in size and foods vary in densities and container requirements. We try to meet what we understand to be the desires of the consuming public in co-operation with the industry and government. We have no desire to tell the housewife what sizes of containers she needs, and would be foolish to try. We will produce food for the consumer in any container she desires, as long as we can do so in compliance with government regulations and within the specifications of purity and quality that we demand.

We think it should be noted that our basic commodities are in quite simple packages consisting of a container, a label and a carton.

Although competitive prices are important to us, they are not the only determining factor in arriving at our selling prices. During pack and particularly upon completion of pack, we consider production costs. Based on these costs and considering probable shelf price, we evaluate our selling prices. If we do increase our price on an item and if, in the opinion of the trade, our announced price exceeds that of competitors by too great a degree, we would be so advised.

In point of fact we are not always competitive. Our production plants are located in Quebec and Ontario. Since we sell our products on a F.O.B. basis, added freight costs result in a higher laid down cost in distant markets. This is particularly true in the west.

We, of course, always wish to know our competitive price position in the market place. We purchase a retail price report covering Toronto chain store shelf prices and a similar pricing report published in French for retail chain store prices in Montreal. In addition, our sales force is required to send in, periodically, retail price reports and immediate reports on current competitive action, either in retail price changes or merchandising activity. Personal observation of shelf prices is also employed.

Shelf price changes, patently not of a temporary promotional type are an immediate sign that a competitor has most likely changed his selling price to the trade. With our experience in this field we can make a very accurate estimate of the competitor's revised price.

Pricing in the processed vegetable business is important and complex. Although we take a number of factors into consideration in our pricing, the fluctuating production of agriculture crops often forces us to ignore desired profit goals, production costs and competitive pricing.

In brief we evaluate a number of factors in determining our prices to the trade. These factors are our own supply, industry supply, production costs, competitive pricing, desired shelf prices and corporate profit goals.

We pride ourselves on our marketing record—on the advertising support we have provided Green Giant Brands over the years. The Green Giant on the label opens buyers' doors to our brands since they know each item will receive adequate merchandising support resulting in a high-shelf velocity. Consumers across Canada have been introduced to Green Giant Brand products through magazine, radio, newspaper and T.V. advertising. This introduction has helped consumers become acquainted with the high quality of Green Giant Brands and our increasing sales attest to their loyalty.

Because of the national advertising support, we are limited users of other types of promotional activity. We do very little. We use consumer premiums sparingly and never the in-pack or on-pack style. In 1961 we gave in exchange

* Canada Agricultural Products Standards Act and the Processed Fruit and Vegetable Regulations.

for 2 labels a Green Giant Colouring Book for children. In the fall of 1962 we offered a large Green Giant rag doll and one year later we provided a consumer write-in offer on a 16 inch Green Giant rag doll. During October 1964, we offered a mail-in premium—The Green Giant Valley Express Train. We are again presently offering a 16 inch Green Giant rag doll. It should be emphasized that these consumer premiums all required that those desiring the premiums write in for their requirements. They do not have to buy anything.

We are not large users of coupon promotions. A "pop-up" coupon was used this year in the February 1966 issue of *Chatelaine* Magazine. Limited use has been made in the last five years of "in-freezer" coupon pads supporting "frozen in butter sauce" items. In addition we usually offer a Canadian National Exhibition Coupon Book to those people visiting our booth at the Exhibition.

As stated above, we are limited users of consumer premiums and coupons but this should in no way be interpreted that we are not convinced of the value of these merchandising tools. Coupons for example, offer to the advertiser speed of action, flexibility, and geographic control—and to the consumer—savings. In the same vein, although we have used the "cents-off" or "Flag label offer" sparingly, we believe it is a fully acceptable and useful marketing tool. Green Giant of Canada used a "cents-off" label in 1965 on buffet size items. Our experience was that the reduction shown on the label was fairly handled by our distributors and we feel that Canadian consumers received full benefit of the reduction.

The following table shows opening or current prices F.O.B. plant on our major Green Giant Brand items compared to the consumer price index. The table shows increases have been made on some items. Other items have decreased or held steady. On the basis of available information, it would appear to us that our price levels have not increased at the rate of consumer prices in general.

These are our major items, and I will read across from 61 to 66. There has been a designation change on the first item; it used to be 15 oz. but is now 14 oz. in the same size can.

	1961	1962	1963	1964	1965	1966	% Change 1966 vs 1961
24/14oz Green Giant Brand Peas.	$3.95	3.95	3.95	3.95	4.10	4.30	+ 9%
24/12oz Niblets Brand Corn.....	3.80	3.90	3.90	3.90	4.10	4.10	+ 8%
24/14oz Green Giant Brand Cream Corn.....	3.90	3.90	3.90	3.90	4.10	4.10	+ 5%
24/14oz Green Giant Brand Cut Beans.....	3.80	3.80	3.90	3.90	4.05	4.30	+13%
6/75oz Green Giant Brand Corn.	5.78	5.78	– This is the institutional size. – 5.78	5.25	5.25	5.25	– 9%
12/2½ Green Giant Brand Frozen Corn.....	4.75	4.75	4.75	4.75	4.75	4.75	0%
12/2½ Green Giant Brand Frozen Peas.....	5.00	5.00	5.00	5.00	5.00	5.40	+ 8%
Consumer Price Index..... (1949=100)*	123.2	126.8	131.3	132.7	136.4	147.1	+19%

* Source—D.B.S. Prices and Price Indexes (Food) for the month of September.

Our sales orders are billed to the trade on gross selling price and show on the face of the invoice any allowances that apply, such as, damaged merchandise allowance, promotion allowance and 15-day cash discount.

Green Giant of Canada does a minimum amount of "private label" packing—on a per case basis less than 1 per cent in fiscal year 1965 and 1.6 per cent in fiscal year ending March 31, 1966. We just are not in the private label business.

At Green Giant we believe in our nationally advertised brands. We believe we offer a superior quality product and that we have built and are building a franchise of consumer trust that has become precious to us—almost a way of life. We believe this franchise sets a goal of quality that is an asset to the food industry. We believe this franchise lets us plan better for the crop ahead and for the future—thus giving us a better chance to produce more efficiently. Our quality franchise provides us the incentive to do the basic Agricultural, Processing and Consumer Research that in our segment of business is done to a great extent by the nationally advertised brand packers. We have many of our own seed varieties, processes and methods which are developed to give the consumer a superior product.

This research, so vital and necessary in Canada, makes possible not only better food, but more return to the farmer, better production costs and in net effect lowers prices to the consumer.

National brand advertising costs money, but how does this relate to the cost of goods and the prices consumers pay for these goods?

Professor Neil Borden of Harvard University, working with an advisory committee of five other professors, examined hundreds of case histories to discover the effect of advertising on prices—Among his conclusions was this point: "The building of the market by means of advertising and other promotional devices makes price reductions possible for large firms". Professor Borden and his advisors decided that advertising, "though certainly not free from criticism, is an economic asset and not a liability".

If advertising is an essential element of our economic success here in Canada, it is and will be no less essential in penetrating and sustaining foreign markets. Thus advertising becomes an essential tool in reducing unfavorable balance of payments.

Mass production requires mass distribution and mass distribution requires mass demand. Advertising is to distribution what the machine is to production—a multiplier of effort.

If Canada did not have a nation-wide market its economy would be segmented, unstable and far, far less productive than it is today. This national market has shaped an interdependent, closely knit economy that generates its own growth. Each part—each industry, each city, province, region—each part through the sale of its product and services, creates wealth that in turn provides buying power for the products and services of other parts. In effect we all buy each other's bread.

Over the period 1965 to 1975 the gross value of all manufactured goods produced in Canada is expected to more than double from thirty-two billion dollars to sixty-seven billion dollars. This would represent a more rapid rate of growth than took place over the decade from 1955 to 1965, when the gross value of manufactured output in current dollar terms rose by about two-thirds. So, over the next decade Canadian manufacturing industries face the task of finding huge new markets for the products they will be capable of turning out and the main market will have to be found in Canada. The task is truly gigantic: how to sell an additional thirty-five billion dollars' worth of manufactured goods annually a decade from now?

Where the costs of making a product are reduced by virtue of large scale production, and where advertising has helped produce the volume of sales needed to effect the savings of mass production, it is legitimate to say that advertising has helped make possible the reduction in the cost of producing these goods. The job of advertising is to help create the volume of orders needed to produce the optimum level of production, serving to reduce the cost of manufacturing.

At Green Giant we believe confidence is the most precious ingredient in the market place. Advertising helped build consumer confidence. Before the advent of brand names and before advertising identified those brand names as synonyms

for quality in the public mind, the consumer accepted it as a fact of life that quality was a hit or miss affair.

It wasn't until the cracker was taken out of the cracker barrel and put in a tin can with a name on it, and not until that name was given circulation through advertising, that the consumer began to expect quality or was readily able to identify quality products. And because she got it, she increasingly bought other brands that she saw advertised.

It was advertising and brand names that gave us faith in the market place in the first place. Superior quality sustains that faith.

A tabulation of hourly rate increases from 1961 through 1966 will illustrate the increase in the rates of production labour during the past 5 years at Green Giant.

YEAR ROUND EMPLOYEES—HOURLY RATES

	1961	1962	1963	1964	1965	1966	% Change 1966 vs. 1961
Avg. Rates	$ 1.81	$ 1.90	$ 2.04	$ 2.14	$2.31	$ 2.54	+ 40%
Annual % Increase	—	5%	7%	5%	8%	10%	

SEASONAL EMPLOYEES—HOURLY RATES

	1961	1962	1963	1964	1965	1966	% Change 1966 vs. 1961
Avg. Rates	$ 1.12	$ 1.21	$ 1.28	$ 1.34	$ 1.43	$ 1.53	+ 37%
Annual % Increase	—	8%	6%	5%	7%	7%	

Of particular interest is the percentage increase in rates in years 1964 through 1966.

YEAR ROUND EMPLOYEES

	1961 through 1963	1964 through 1966
Avg. % Increase	6%	9%

SEASONAL EMPLOYEES

	1961 through 1963	1964 through 1966
Avg. % Increase	6%	7%

The escalation in wage rates is, we think, related to—

1. Inflationary pressure on wages.
2. The upward shift of skill requirements from 1961 when 36 per cent of year round employees were skilled to 1966 when 54 per cent are skilled.

Total salaries and wages on a calendar year basis in thousands of dollars are shown below.

	1960	1961	1962	1963	1964	1965
Salaries	$ 298	$ 342	$ 392	$ 388	$ 446	$ 564
Hourly Wages	689	742	852	872	903	1190
Total	$ 987	$1084	$1244	$1260	$1349	$1754

We make no interpretation of these; they are there for your help.

The table below attempts to show components of the gross sales dollar we receive by major commodity.

No application should be made to any specific brand, quality or tin size since this is an average and a number of allocations were necessary in our attempt to provide this type of information.

Co-Chairman Senator CROLL: You need not read all these figures; they will be included in the record. Have you anything further to add on this table?

Mr. ANDERSON: No, sir.

Mr. WHELAN: I think some of these figures are the most important of all the figures we have had, especially where you compare price of raw product with price of containers. I would like them to be read at this time.

Co-Chairman Senator CROLL: They will be included in the record, you know.

Mr. WHELAN: I know, but Mr. Anderson read all the others that are not so important.

Co-Chairman Senator CROLL: All right, go ahead.

Mr. ANDERSON: Yes, sir.

COMPONENTS OF GROSS SALES DOLLAR BY COMMODITY

FISCAL YEAR ENDED MARCH 31, 1966

	Canned Peas	Canned Corn	Canned Beans
Sales Dollar	1.000	1.000	1.000
Allowances	.088	.018	.052
Raw Product	.303	.234	.191
Containers	.217	.245	.244
Factory labor and Overhead	.139	.130	.146
Cartons	.022	.026	.026
Labels	.014	.011	.017
Condiments	.013	.012	.001
Total	.708	.658	.625
Distribution Costs	.019	.031	.046
Brokerage and Selling	.024	.024	.024
Advertising and Merchandising	.057	.059	.057
Cash Discount	.012	.012	.012
Volume Discount	.017	.017	.017
Interest	.016	.016	.016
Administration and General	.060	.060	.060
Income Tax	—	.052	.046
Net Profit	(.001)	.053	.045

If you please, you might now look at Exhibit A, which is the last page, before I read the summary.

Co-Chairman Senator CROLL: No, go ahead and read the summary. Members can look at Exhibit A while you are reading the summary; it will be included in the record anyway.

Mr. ANDERSON: All right, fine. In summary, we have attempted to give to the committee as clear and concise a story as possible.

We have tried to show in so far as time and our records allow the increasing costs and expenses that are a part of the rapidly expanding economy. To the best of our ability in the preparation time available, we have tried to show that our prices have generally gone up less than costs, considering that we have absorbed or offset many of those costs by more efficient methods and by putting increased emphasis on agricultural and production research.

We feel—and this is personal—we cannot emphasize the latter point too strongly, that only by expanding research done in Canada can we hope to compete in the world and our own market place. Those who wait for the basic research to be accomplished and paid for and the market established by others are not in our opinion contributing in full measure to the long range strength of the Canadian economy.

We have said that ours is and has been traditionally an extremely competitive and risky segment of the food industry.

We have said that we must generate profit and at a sufficient level to compete in the market for the money necessary to stay abreast of modern processing methods and techniques, provide new and modern machinery and equipment and to attract the people to do the job.

We have not shown separately the increases in interest rates, municipal and provincial taxes and almost every item we use in our business, but these are included in the net financial statement.

Because we sell on a F.O.B. basis, we have not covered the area of freight and distribution costs. However, changes or increases in freight rates, which we understand are being contemplated, will undoubtedly have an effect on retail food prices.

We feel that basic food items and particularly quality processed vegetables represent a good value to the consumer.

On behalf of Green Giant of Canada Limited, I want to thank you for the opportunity to appear before this committee. We hope that what we have been able to bring here will be of value to the committee in their study of food prices.

Thank you very much.

Co-Chairman Senator CROLL: Exhibit A will, of course, appear on the record. You might take a minute to look at it. Meanwhile members might indicate if you want to do any questioning.

Mr. Anderson, the accountant informs me that all the guidelines that were sent to you have been fulfilled, with the exception of one, comparative financial statements. You have given us the 1965, but there is 1960-65, and you will forward those to us as soon as you get back home?

Mr. ANDERSON: Yes, we will send those immediately to you.

Co-Chairman Senator CROLL: Fine. I will start with Mr. Urie.

Mr. URIE: Thank you, Mr. Chairman.

Mr. Anderson, as you have pointed out in your brief, you are a wholly-owned subsidiary of the Green Giant Company of Le Sueur, Minnesota?

Mr. ANDERSON: Yes.

Mr. URIE: Does your parent company own any other companies, wholly or in part, in Canada?

Mr. ANDERSON: No, not to my knowledge, sir.

Mr. URIE: Do you have any subsidiary companies?

Mr. ANDERSON: Yes, we do. We organized two this year—Producers Container Limited of Canada and Green Giant Frozen Foods of Canada Limited.

Mr. URIE: What are their particular functions?

Mr. ANDERSON: Producers Container will be a can manufacturing subsidiary. We are just completing—in fact, we are working on it now. Likewise with Frozen Foods. What little freezing we have done up to this time has been done on a co-pack arrangement.

Mr. URIE: In other words, you are getting into the production of the containers you use?

Mr. ANDERSON: Yes, we are making them now. We are still installing the lines.

Mr. URIE: Do you own any of the farms, or the primary producers, from which you obtain the raw materials?

Mr. ANDERSON: No, we own no farms. We own just the land that we have our plants on.

Mr. SMITH: I suppose you grow various products on contract with farmers?

Mr. ANDERSON: Yes, sir, we do. We grow on contract and we do some farming on our own.

Mr. SMITH: Do you have a standard agreement with the farmers?

Mr. ANDERSON: Yes, we do.

Mr. SMITH: Could the committee be provided with a copy of that agreement at some time?

Mr. ANDERSON: You certainly may. Mr. Farrow will be glad, I am sure, to provide whatever you want. It is a standard form.

Mr. URIE: Are these annual contracts or are they negotiated in the open market?

Mr. ANDERSON: These are annual contracts.

Mr. URIE: Your purchases then are made solely through contractual relationships with the producers—or, do you go to the open market?

Mr. ANDERSON: I would say they are made solely on contract. I cannot think of anything offhand that we buy—

Mr. A. C. Farrow, Vice-President, Production, Green Giant of Canada Limited: In Ontario we deal with the marketing boards where the prices are all negotiated over the winter months and in the early spring. This process sets all the prices and terms for the following pack year. Likewise, in respect to our contracting—where we operate in Quebec the negotiations are all completed with the growers in the spring.

Mr. URIE: So, all of your Ontario purchases are made through the marketing boards and all of your Quebec purchases are made through individual contracts with the producers?

Mr. FARROW: Yes, sir.

Mr. SMITH: Do you find that dealing with marketing boards tends to lend stability to the prices from one year to another?

Mr. FARROW: I would not say it has in our particular case, because we are dealing only in Ontario and Quebec with raw produce.

Mr. SMITH: That is what I am talking about.

Mr. FARROW: They are so associated that one follows the other. They are very close.

Mr. SMITH: Has there been any such fluctuation from one year to another in the prices you have paid since these marketing boards have been established?

Mr. FARROW: I do not think I could answer that, sir, because we have been operating under the marketing boards in Ontario for as long as I have been with the company.

Co-Chairman Senator CROLL: For how long is that?

Mr. FARROW: About 20 years.

Mr. URIE: Now, as a Canadian subsidiary of an American company what arrangement do you have for the payment of licensing fees, royalties, advertising allowances and charges for research facilities that are provided for you by your parent?

Mr. ANDERSON: We pay only the per diem fees. We pay the expenses of these people that we ask to come, and we pay them on a per diem arrangement.

Mr. URIE: There is no flat annual fee?

Mr. ANDERSON: No. Sometimes we request people, and sometimes we get someone we do not request.

Mr. URIE: In that respect you are unlike some of the other companies which have appeared before this committee, which pay a fee based on a percentage of sales?

Mr. ANDERSON: No, we have no such arrangement.

Mr. URIE: I refer you to page 5 of your brief. You make a statement there with respect to advertising in these words:

> The general trend has been down considering our increasing volume.

In that connection may I point out to you that from 1961 to 1966 the total volume in dollars has increased by about 50 per cent.

Mr. ANDERSON: Yes.

Mr. URIE: And I point out also from your exhibit A that during the same period your sales increased from $6.807 million to $11 million, which is an increase of approximately 62 per cent. As a matter of fact, if you take each one of the items in exhibit A, as I have done, you will find that they have increased by an average of 60 per cent. One item has increased by about 79 per cent. But, your advertising has gone up only 50 per cent. Is the fact that your advertising budget has not gone up as much as your gross sales figures an indication to you that advertising does not play the important part that perhaps you have thought?

Mr. ANDERSON: No, I would not say that.

Mr. URIE: What is your comment in respect of this?

Mr. ANDERSON: It is a matter of budgeting with us, and trying to get the most for the dollar.

Mr. URIE: And this is demonstrated by the fact that your sales have increased quite markedly while, as you point out, there has been a general trend downward in the total amount expended?

Mr. ANDERSON: Yes.

Mr. URIE: Is that because of a wiser spending of your advertising budget?

Mr. ANDERSON: I would hope so. Perhaps Mr. Eagen can comment on this.

Mr. URIE: Yes, and bear in mind, Mr. Eagen, that practically every company has increased its advertising dollar volume during a similar period.

Mr. W. B. Eagen, Vice President, Sales and Marketing, Green Giant of Canada Limited: Mr. Urie, I appreciate your comment about spending dollars wisely, and perhaps that could be passed on to our management. I think the answer to your question is that our promotional or advertising activity tends to snowball as we are able to put more brands under the Green Giant umbrella. If we have to go out and advertise and buy, let us say, TV spots for one item then it becomes expensive, but if we can put a number of items on the one TV spot, for example, with a rider, then this brings down our costs, and our volume increases as we increase our lines. The result is that our advertising costs do come down.

Mr. SMITH: Do you propose to put the Clark brand names under the Green Giant label? Do you intend to market them as Green Giant soup and Green Giant pork and beans?

Mr. ANDERSON: I would not think so. Right at this moment we are not prepared to judge that. Let me say this, that we are very, very impressed with the Clark position. We are very impressed with the quality, and we are not

prepared to make any judgment here. I would think that this will require much more knowledge than we have right now.

Mr. SMITH: You have certainly a pretty good economy name.

Mr. ANDERSON: We were very impressed with the line, and I say that sincerely, but we are not that far along with it now to make any judgment. We are trying to live right now.

Mr. URIE: Mr. Anderson, you mention also on page 5 that the advertising figures include media advertising, co-operative merchandising, consumer promotion, direct mail and dealer helps.

Mr. ANDERSON: Yes, sir.

Mr. URIE: Would you provide us with a break-down of those various items?

Mr. ANDERSON: Yes, we certainly will.

Mr. URIE: I think that will assist us because this is the type of thing we must look at.

Mr. ANDERSON: Yes, we will give it to you in whatever detail it can be provided.

Mr. URIE: Now, it would seem, referring to your exhibit A again, that in addition to advertising and marketing the following items might be included under the heading of "Promotion" or "Marketing," or whatever you wish to term it, namely, export development and distribution expenses. I mention those two items particularly because you have stated that you do deliver f.o.b. your factory.

Mr. ANDERSON: Yes.

Mr. URIE: And volume discounts. I do not think cash discounts should be included, but certainly volume discounts should be. I would think that they would be part of your promotion expenses.

Mr. ANDERSON: Yes.

Mr. URIE: Would you give us your comments on those observations, please?

Mr. ANDERSON: Of course, distribution expenses in our case are largely inter-plant and consignment stock, and so forth. In other words, we produce snap beans only in Quebec—we used to call them string beans, but we did not like that. They have been improved you see.

Mr. URIE: What did you say the distribution expenses were?

Mr. ANDERSON: Largely, in our case, they are inter-plant expenses and consignment stocks, and then there are the costs of distribution. We have, for instance, snap beans only in Quebec. We would like to have them in Ontario. We have to bring most of them back here and re-distribute them, you see.

Mr. URIE: This is from one warehouse to another?

Mr. ANDERSON: Yes, for consignment stocks that we put in places so that we can serve the customers. In other words, we have to be able to give them the full line whenever they require it.

Mr. URIE: But that has nothing to do with the distribution expense from you to the customer?

Mr. ANDERSON: Only in so far as those things that are not completely covered on an f.o.b. basis are concerned—some items there.

Mr. URIE: What would those items be?

Mr. ANDERSON: Where we have to get into some kind of freight equalization which, again, is pretty small with us. However, there are some cases where you cannot expect the customers to bear this expense.

Mr. URIE: That is where there are long distances involved?

Mr. ANDERSON: Yes, where you have an inequity. We try to make our products available fairly to everybody.

Mr. URIE: What about export development?

Mr. ANDERSON: Export development is concerned largely with our attempt to move into the market actually in the United Kingdom.

Mr. URIE: Have you moved into it to any extent?

Mr. ANDERSON: Yes, we have. We are really very happy about it. We went in with corn and we found first of all that the people in the United Kingdom had never seen it and it was quite an experience. So we introduced it and did some advertising, and we have had what we think a very gratifying experience. I should say that our parent company has helped us tremendously here. They have the international division and pay most of the wages of the people, and we are allowed to get by pretty well.

Mr. URIE: Any advertising you have had in the export market has been under the heading—

Mr. ANDERSON: Yes, this is what this is. We went in pretty strongly, and then had some pretty poor profit years and could not do much, as you know.

Mr. URIE: I have one or two more questions, and then will turn the questioning over to the members. On page 6 you refer to packaging, and the increases there are relatively small: Tin cans, 9 per cent; shipping cartons, 7 per cent; and labels are down 11 per cent. What are your comments with respect to those relatively modest increases in two cases and the decrease in one, and the large increases in your sales, sales allowances, brokerage, discounts, and so on, bearing in mind that on your chart on page 15, if you add cartons and labels to containers in each of the three products you mention there, in two of the cases it brings the cost of the containers, cartons and packaging, to a figure greater than the actual raw product which goes into packaging?

Mr. ANDERSON: Let me say first of all that since we have had another week available to us we did get some more figures on this. This is general. We went back to the actual invoices and dug them out and would like to give the figures to you in much more detail.

Mr. URIE: Have you those with you, Mr. Anderson?

Mr. ANDERSON: Yes. Mr. Thrane has them with him. It is a much better breakdown of what has happened. It also gives the breakdown of the advertising media.

Co-Chairman Senator CROLL: This is Exhibit B and is being distributed to the members of the committee now. Please take a look at it before Mr. Urie continues. It is entitled "Schedule of Allowances"—"Schedule of Advertising and Promotion".

Mr. URIE: I presume you are referring, with respect to containers, to Exhibit D?

Mr. ANDERSON: Yes.

Mr. URIE: I would like to review that from 1961 to 1966, for the benefit of the members of the committee.

Mr. ANDERSON: Looking at it I thought perhaps we had better go back to the invoices and take the discounts to see what actually happened, because there is a great difference by product.

Starting with 1961 we see 300 x 407, canned peas, in the amount of $32.82; in 1966, $35.45, an increase of 8 per cent. 307 x 306, corn, in 1961, $33.46, and in 1966, $35.94, an increase of 7 per cent. 300 x 407, corn, $32.82 in 1961 and in 1966 $35.45, an increase of 8 per cent; and 300 x 407, beans, $32.97 in 1961, and in 1966, $39.55, an increase of 20 per cent.

I should comment here that beans are put up in what generally is referred to in the trade as "hot dip". The mills are simply, not technically equipped to produce this plate, a process they cannot afford to mechanize because of volume. They want to go out of this hot dip plate business. This accounts for some of the differences. What will be the future of the hot dip plate in the canning business we don't really at this time know. Canadian and United States mills want to get out of it. I am saying this because this is not because of the can companies but because of the tin plate that is coming in here, as we understand it.

Referring again to Exhibit D, under the heading "Shipping Cartons", you will see for 1961, 24-14 ounce peas, $90.35; in 1966, $93.91, an increase of 4 per cent; 24-12 ounce corn, 1961, $84.98; 1966, $94.24, an increase of 11 per cent; 24-14 ounce corn, 1961, $88.97; 1966, $90.54, an increase of 2 per cent; 24-14 ounce beans, 1961, $83.60; 1966, $93.81, an increase of 12 per cent.

These figures on shipping cartons do not reflect this latest increase, again, because we went to actual invoice so that you would have it as an actual matter of record.

Mr. URIE: The only thing included in packaging would be the labels, which you have shown on page 6?

Mr. ANDERSON: Yes. There has been quite a breakthrough, as we understand, in the label business, and they are doing a nice job. We are very happy about it.

Mr. URIE: Perhaps I will go back to this exhibit after I have had a better chance to examine it, Mr. Chairman. I have one other question of Mr. Anderson, that is, with respect to these comments on page 10 of various items of your products. How many products do you manufacture in addition, is this the whole line?

Mr. ANDERSON: No, but this is probably—what you would say 60 to 70 per cent? These are the major items. We have Garden Patch label, Kounty Kist label, and so on, but these are fancy items.

Mr. URIE: Your price changes range anywhere from an increase of 9 per cent in the case of Green Giant brand corn, to an increase of 13 per cent in Green Giant brand cut beans?

Mr. ANDERSON: Yes.

Mr. URIE: They are relatively modest increases, and at the same time even after taking into account all your various increases, sales allowances, advertising, and so on, as shown in Exhibit A, an eventual increase in net profit of 20 per cent. Your average increase I would say is about 8 per cent in prices. What is the explanation for the substantially greater net gain?

Mr. ANDERSON: I think you have reversed the figures, sir.

Mr. URIE: I am sorry, I can see now that I have been reversing the figures, and I withdraw my question.

Co-Chairman Senatro CROLL: Senator Carter?

Senator CARTER: On Exhibit A, your volume discount has been fairly steady from 1961 to 1966, in percentage terms, and also your cash discount; but your sales allowances have fluctuated considerably. You may have given that answer to Mr. Urie but I did not catch it.

Mr. ANDERSON: No, sir. The volume discount and the cash discount are on a straight percentage, they are just a per cent.

Senator CARTER: Just per cent on sales?

Mr. ANDERSON: Yes. But the sales allowances of course include a damaged merchandise allowance. We make an allowance so that if there are damaged cans in shipping, or if the labels are off, and so on, this is our responsibility all the

way. We do not want them on the shelf in any other way but as nice as we can get them there. Therefore, we make this allowance. Different companies do this in different ways. Some companies go out and actually pick up the cans and replace them but this is quite expensive and can be an annoyance to the people in the trade, if they have to justify the thing. We make a straight allowance here and we hope that it covers it and we think that it does and if there is any variance there it is part of the business.

Senator CARTER: The point I am making is that sales allowances jumps from $273,000 in 1962 to $479,000 in 1963, it stayed at $407,000 in 1964 and went down to $305,000 in 1965. It jumped around a lot?

Mr. ANDERSON: Yes. Perhaps Mr. Eagen, the Sales and Marketing Vice-President, could explain this to you. I hope he can help you.

Mr. EAGEN: I believe I can be of some help. We make up our advertising budget figure prior to pack. Therefore, this remains fairly constant. Being in a business where Mother Nature gives us the quantities, we cannot control them like other industries. If we know we have an above-budget pack, it behooves us to move it in that pack year. The quickest way is to use an allowance. Therefore, when we have an above-budget pack, this promotional allowance will rise. That basically is the reason. It is the result of a pack situation.

Senator CARTER: I think you told Mr. Urie that you export some of your products?

Mr. ANDERSON: Yes.

Senator CARTER: You give us here in Exhibit A figures for export development, which also fluctuated tremendously, from $127,000 in 1962, to nothing in 1963 and 1964?

Mr. ANDERSON: Yes.

Senator CARTER: Was that advertising?

Mr. ANDERSON: Yes. That is, other than salaries. Actually, we went into the market and looked at it and we found a great interest in Canadian products. So we said, "Let us go out and do this", and we spent some money the year we had some money. Frankly, we did not have any for a year or two. It definitely is coming now. We are very excited with this thing. Incidentally, we are working very closely with the Government in this area. We think we can do some more of these things. We are hoping for it.

Senator CARTER: Going back to page 16, your distribution costs for your product—your distribution cost for canned corn is twice as much as for canned peas, and for canned beans it is almost twice as much. Can you explain the reason for that?

Mr. ANDERSON: Yes. As I said earlier, we have beans only in one area. All our snap beans are in Quebec. We would like to produce them in Ontario, if we could get the capital money. A lot of the cost is in bringing the beans down and reshipping them.

In the case of corn we are completely nationwide, with our Niblets brand.

Senator CARTER: It is a matter of distance?

Mr. ANDERSON: Yes, and the way we have to bring the product into our interplant situation. It is a matter of supply. Mr. Farrow could give some more information on that.

Mr. FARROW: As Mr. Anderson has mentioned in the case of beans, we have to move a large percentage of them from the Quebec plant where they are produced to our Ontario plant for distribution to Ontario and to the west.

In the case of corn, the majority of the cream style corn is only manufactured in Ontario and has to be moved back to Quebec for distribution to Quebec and eastern markets. Whereas, the peas acreage situation is very well split, so

the peas produced in Ontario take care of the market there and the peas produced in Quebec take care of the Quebec market.

It is basically an interplant situation—freight.

Senator McDonald: As a supplementary on that, why is it that you only produce beans in Quebec, rather than in Quebec and Ontario?

Mr. Farrow: Historically there have been better quality beans produced in Quebec. It seems that the longer cool nights and the weather situation produce better wax beans, of better colour. This has been the situation over the past several years. We are quality conscious. We have been doing a tremendous amount of research over the years, in the Essex district and Essex County, in the London area, trying to grow beans there. As Mr. Anderson has said, this is a question of money. We try to study some of the varieties not available, to see what we can do to get them into Ontario.

Senator McDonald: I have one more supplementary. Are you able to get sufficient beans in Quebec to supply the Canadian demand as far as your company is concerned?

Mr. Farrow: Yes. We have no problems securing average in any area for any of our products.

Senator McDonald: It is just a matter of the price, if you have to move it too far?

Mr. Farrow: Yes.

Mr. Anderson: And the production facilities.

Senator Carter: I have many more questions here but I will confine myself to two. On page 14, you talk about your employees and you relate the escalation in wages to inflationary pressure on wages and the upward shift of skilled requirements. You make a comparison between 1961 and 1966, as to the percentage of your employees who are skilled. Have you any figures you can give the committee as to the increase in productivity that has resulted from this upgrading in skill?

Mr. Anderson: I do not have any with me, but unquestionably there has been an improvement. This is a difficult thing to answer, because at the same time we have been investing almost all our money back in the business, in machinery and in better ways to do the thing. There has been a definite improvement. As you bring in new equipment, new machinery, it takes more skilled people to run it. The day is almost gone when you can have almost anyone run a machine. For instance, our products are processed largely in continuous cookers and these are complicated machines and require skilled people to control them.

Senator Carter: On page 11 you state that you do a small amount of private label packing?

Mr. Anderson: Yes.

Senator Carter: Could you give us your price differential for your private labels, your prices to the wholesaler for your private labels, as compared with the national brands?

Mr. Anderson: I am sure Mr. Eagen could give you some prices. First of all, let me say that no Green Giant quality goes into the private label, so if we would compare this, the comparison is not valid.

Co-Chairman Senator Croll: What would go into these private brands?

Mr. Anderson: It would depend upon what the private label request would be. In our case, it is very small. If they want choice quality, it would be choice. If they want another quality—we are just not in it. In our case it is mostly the choice product.

Mr. EAGEN: I really do not have that comparison between our own prices and the private label prices.

Mr. ANDERSON: But this could be supplied.

Senator CARTER: How many different size packages do you use for your product?

Mr. FARROW: We are regulated by Government regulations, as you know, on tinned foods. We are only allowed to put them in the sizes they are provided for. In the case of peas, as I recall strictly, it is 10 ounce; the former 15 ounce now is called 14 ounce; the former 20 ounce is now called 19 ounce; and the 105 ounce is now called 100 ounce. These are the basic four sizes permissible, and we are in three of those four.

Senator CARTER: Do you have any odd sizes?

Mr. FARROW: We are not allowed odd sizes. We are regulated entirely by the Department of Agriculture.

Senator CARTER: All of your packages come under these regulations?

Mr. FARROW: Yes sir.

Senator CARTER: You make a point on page 6, that it is not always a good buy to buy the large size. In food, you might buy more than you are going to eat, and have to throw the balance out?

Mr. ANDERSON: Yes.

Senator CARTER: Have you carried out any consumer research, to find out what quantity should be in cans, to meet various needs?

Mr. ANDERSON: Yes, we do some. We have not done a great deal, in regard to cans, here in Canada. The parent company has done this for years and years, exhaustively. We have not actually been big enough, and we have not done a great deal of that in the can part of the business.

Senator CARTER: Could you give us some idea what the results of your research have been and what you have found out? Perhaps you could provide that information later; I am not asking you to give it to us now.

Mr. ANDERSON: Do you mean what we have found out respecting sizes?

Senator CARTER: No. What I wish to know is what should be in tins and what actually goes into them according to the regulations. I am interested in sizes, yes, but also in the contents.

Mr. ANDERSON: I believe we can provide you with that information, although, offhand, I do not have any comment to make, except that, thinking in terms of basic vegetables, which is what we are talking about here, the various sizes pretty well meet demand. I suppose there could be some variation, but there is a little limiting factor here that sometimes bothers us. Let us take the export business, for example. Sometimes we do not have the exact right can to export. However, we do not find a great problem in this area.

This is simply an opinion, and I do not know that I can really help you much in this regard, but we can send you what information we have.

Senator MCDONALD: May I ask one supplementary question, Mr. Chairman? Is your parent company in the United States controlled by government regulations regarding the sizes of cans?

Mr. ANDERSON: No, they are not. The parent company co-operates with the food and drug people there, and our company at least would be very reluctant to simply make an arbitrary change of size. They go right to the government and talk to them about it.

Senator MCDONALD: But you are free in the United States. Your parent company could put up its products in whatever size cans it likes.

Mr. ANDERSON: By law, yes, but we are very conscious of the customer.

Senator McDonald: Could you tell me how many can sizes your company in the United States has for peas?

Mr. Anderson: I believe so. The parent company has a seven-ounce can, which is a "211". There is no 10-ounce can. There is what is called a 17-ounce can, which is a "303" rather than a "300", and with these figures I am talking in terms of dimensions. There is a No. 2 can, or at least I believe some packers still carry that.

Mr. Farrow: That is the same as our 20-ounce can.

Mr. Anderson:We do not pack it. Our company does not have it, but there is one. We also pack in the No. 10 size.

Senator McDonald: You have about four sizes in Canada and about four in the United States in your parent company. Is that correct?

Mr. Anderson: I believe we have only three in both places.

Mr. Allmand: Mr. Anderson, on page 5 of your brief there is a table at the bottom of the page referring to cost per ton of raw produce.

Mr. Anderson: Yes, sir.

Mr. Allmand: According to that table, corn is by far the lowest cost item.

Mr. Anderson: Yes, sir.

Mr. Allmand: It would seem, if you look at that alone, that the price of corn should be substantially lower than your other products.

Mr. Anderson: Yes?

Mr. Allmand: It should be lower than peas or beans. Now, on page 4 you have a table with respect to profit which shows that you made a bigger profit on corn in 1966, namely, 5.1 per cent.

Mr. Anderson: Yes, sir.

Mr. Allmand: Do you use corn to make up for a lower profit that you would get on peas or beans in order to maintain a certain profit level over all?

Mr. Anderson: No, not necessarily. We would like each one to contribute its own share. If I may presume, the difference here is that corn is purchased on a ton basis and there is a high percentage loss per ton.

I would ask Mr. Farrow to explain this, as it deals with recovery, a subject with which he is more familiar than I.

Mr. Farrow: In the case of peas versus corn, you are looking at four times the recovery from a ton of peas compared to a ton of the raw product of corn. I believe this explains the difference. To explain further, $100 worth of the raw product of peas produces four times as many cases as $30.00 of corn. Now, that is what I am getting at. This is a factor to be taken into account.

Mr. Allmand: What I am getting at is that the apparently lower cost of corn does not seem to be handed on to the consumer as much as it might be, because it seems that you are using the lower cost to make a higher profit rather than handing it on to the consumer.

Mr. Farrow: Perhaps I am not making myself clear. From a ton of corn an average of 30 cases of finished product might be recovered, whereas, in the case of a ton of peas, 120 cases of finished product will be receovered.

Mr. Allmand: I see. Now, I was also going to relate those costs to the table on page 15. If you look at the relative cost of the raw product, corn is higher than beans. Corn is .234; beans is .191. This would seem to indicate that corn costs more than beans. Then, if you go back to the table on page 5, it seems that corn is much less. I find this rather confusing.

Mr. Farrow: Of a ton of corn brought into the factory, 70 per cent is thrown away.

Mr. Allmand: I see.

Mr. FARROW: We throw away the husks, the cobs and so on. However, if you were to buy one ton of peas from the grower, you would be bringing into the factory, basically, one ton of shelled peas and the loss there would be very small.

Mr. ALLMAND: With respect to my first question, whether you try to price your products in order to maintain an average profit level in the company, do you try at the beginning of the year to set a profit level that you want to aim at and price your products throughout the year in order to maintain that level, gaining higher profits on some products and lower profits on other products?

Mr. ANDERSON: The fact is that we do have variations caused largely by supply and demand of the product.

Mr. ALLMAND: But what is your answer with respect to a goal?

Mr. ANDERSON: We do have a goal, but it is an overall goal and we try to budget toward it.

Mr. ALLMAND: It is a profit goal.

Mr. ANDERSON: We would, naturally, like each product to contribute its share, and all things being equal, if the planners did their job right, we would come out exactly even. However, it just does not happen that way because nature, almost, controls the thing in the end as to supply and demand. Of course, too, other canners have variations in what they need and there are variations in the industry supply.

Mr. ALLMAND: Also on page 15, looking at that table, I notice that the container cost for corn is higher than for peas or beans. However, the difference is not very much between corn and beans, whereas it is quite noticeable between corn and peas. Why is that?

Mr. ANDERSON: This is caused by different tin plates, different weights, different specifications to carry the product and so on. This is a very technical matter, but each product has its own requirements and these weights and tin plate specifications vary greatly. They even vary, sir, if I may say so, by how far you intend to ship particular goods. For instance, if you ship overseas your requirements might vary considerably. I am not saying that that is so in our company, however.

Mr. ALLMAND: I see. Finally, with respect to allowances, the allowances on corn are much less than the allowances on peas and beans. What is the reason for this?

Mr. ANDERSON: This is, of course, one particular year, and relates almost directly to supply and also to the industry supply.

Mr. ALLMAND: I want to move on to another area. You sell both frozen and canned goods.

Mr. ANDERSON: Yes.

Mr. ALLMAND: Often they are the same product with respect to corn and peas.

Mr. ANDERSON: That is correct, sir.

Mr. ALLMAND: The price to the consumer of frozen products is higher than for canned products.

Mr. ANDERSON: Yes, sir.

Mr. ALLMAND: What percentage of your sales in peas was in the frozen area as compared to the canned area in 1966.

Mr. ANDERSON: I do not have the exact figure, and I would not want to guess, but it is very small. As I said we just built our freezing plant and started operations on July 1 of this year. In fact, we have some questions as to whether we are really in operation yet. However, it is a very small part of our overall operations, and we certainly hope that it will become more. We have bet our money here.

Mr. ALLMAND: On page 11 you mention that you produce for the private labels. You say that you believe that your national product is a very high quality product, but you do not comment on the comparative quality between the private label packing and your own national product. Do you produce peas, for example, for private labels?

Mr. ANDERSON: Yes, but not Green Giant quality peas.

Mr. ALLMAND: What quality are they? Are they a different recipe?

Mr. ANDERSON: No, there are three general Government grades, fancy choice and standard, in Canada. We don't do private label business in our fancy peas.

Mr. ALLMAND: But in the choice brand?

Mr. ANDERSON: Yes.

Mr. ALLMAND: In the choice brand is there a difference in recipe from the choice brand in your national products?

Mr. ANDERSON: Actually basically there is a difference in maturity so far as peas are concerned.

Mr. ALLMAND: I see. Are there any cases where the recipe in the choice quality of corn or beans or peas is exactly the same as the recipe in your national product?

Mr. ANDERSON: Well, no. We have our own label for choice and standard brands. In our case this would be Garden Patch or Kounty Kist.

Mr. ALLMAND: How do these products which you produce under your own choice brand name compare with the quality of the products you produce for the private labels.

Mr. ANDERSON: They would be the same. If they ask for choice quality they get choice quality.

Co-Chairman Mr. BASFORD: With such a small percentage of your business in private labels, what sort of firm would you prepare private labels for?

Mr. ANDERSON: I will ask Mr. Eagen to answer that.

Mr. EAGEN: We sell some private labels to A & P, some to Woodward's and some to Steinberg's. I think that is all.

Co-Chairman Mr. BASFORD: Would you supply all of their requirements?

Mr. EAGEN: Oh, no, we wouldn't. As you can see it is a small percentage.

Mr. ALLMAND: Has this percentage been increasing from 1963 to 1966? Have you been asked to produce more for private labels in recent years?

Mr. EAGEN: I would say it has been increasing, but because of the years you chose—we only started to sell private labels in the last couple of years.

Mr. ALLMAND: 1965 and 1966?

Mr. EAGEN: Yes.

Mr. ALLMAND: Do you think the trend will be greater for supermarkets to produce their own labels?

Mr. EAGEN: We are not anxious to produce private label products.

Mr. ALLMAND: I don't know why you are not anxious to do this. They seem to be able to sell these goods on the shelf at a cheaper price than yours.

Mr. EAGEN: We have certain production facilities, and we have problems enough in producing sufficient for our own label. We do not want to invest capital in further plant to produce for private labels.

Co-Chairman Senator CROLL: But you said that you have choice brands which you produce for yourself and which you produce for private labels. Some of these people you mention advertise their private brand as being cheaper than

your brand. In fact what is happening is that they are asking a cheaper price for goods which are the same as those that you sell under your own name.

Mr. ANDERSON: Yes, but I would take it that the quality between the two at the choice level is different. I do not think there is a difference in our own choice. I do not have the figures with me, but I don't think there is a difference in the choice when they advertise it as choice.

Mr. ALLMAND: Therefore there isn't any difference between the choice you produce for supermarkets and the choice you produce for your own label.

Mr. ANDERSON: If it is Canada Choice it is Canada Choice.

Co-Chairman Mr. BASFORD: What is the range of quality in choice products?

Mr. ANDERSON: There is a difference—in our range there might be two or three points difference. I don't know how the Department of Agriculture does this.

Co-Chairman Mr. BASFORD: What I am getting at is that there is quite a range of quality in choice quality.

Mr. ANDERSON: Yes.

Mr. ALLMAND: When we had the supermarkets before us as witnesses they all indicated that they intended to get into the private label business more and more, and if they do they will be buying from canners like yourself and Aylmer and other people in this field. Now there is a demand from the consumer for a lower priced product and it remains to be seen what the effect of this will be, but there seems to be a trend to buy private labels. The comparative prices of national products vis-a-vis their own private labels—I am referring now to your statement on page 12 with respect to advertising. You say that if we are going to have a mass market or if we have a mass market we have lower costs and lower prices and therefore we need this advertising.

Mr. ANDERSON: Yes.

Mr. ALLMAND: I want you to comment on this: If the public has confidence in a particular supermarket like A & P or Loblaw's, they may have the same confidence in supermarket names as opposed to the national brand name and yet they get the product at a lower price because they don't have the high promotion and advertising costs.

Mr. ANDERSON: I think this goes pretty deep. We say and we believe we are the leaders in this field and we built a franchise and this franchise lets us do the research, the basic research, and the basic building of the market. We have, for instance, in our corn varieties, if I may refer to them—these go back 40 years in time, and we have these varieties which we have led in the industry, and in bringing these along we have actually led the increase in production and therefore have set the pace in the industry, and we think that no matter how things go someone will have to do this.

Mr. ALLMAND: Why could you not continue to do research and produce products for sale to the supermarkets which they in turn can sell to the public at cheaper prices because they do not have the large national brand advertising?

Mr. ANDERSON: It comes down to two things, the ability to plan for the future and so to amortize the investment you put into this. In the situation you mention you would be completely at the mercy of a one-year's contract or one year's supply. We can look into the future and put in new machinery and new equipment when we maintain our own national brand.

Mr. ALLMAND: You feel you would not be able to control the market as well?

Mr. ANDERSON: No.

Co-Chairman Senator CROLL: What Mr. Anderson is saying that he would be in the hands of the chain stores who could cut his throat any morning and leave him flat. He wants to avoid this situation, and that is not a bad idea.

Mr. ALLMAND: What percentage of the market do you have for corn and peas and beans?

Mr. ANDERSON: For basic vegetables I think we have about 20 per cent of the Canadian market. We get these figures from purchased services.

Mr. EAGEN: May I make a comment here? International survey estimates in 1965 show there are 31,340 grocery outlets in Canada. Of these 1,530 stores, or only 4.9 per cent, were corporate chains doing an estimated 46 per cent of the dollar volume. The same survey indicates that there are 7,410 other group outlets and 22,400 independent stores. This means that 95.1 per cent of grocery outlets do 54 per cent of the dollar volume. Your comments about private label were in connection with corporate chains. There are a great many other stores to be serviced which leaves a considerable area for other than private label business.

Mr. ALLMAND: But it seems that even in these private stores they are beginning to join together into voluntary groups.

Mr. EAGEN: Yes, some of the voluntary groups have their own private labels, but this is a minority. Some 22,000 stores do not have their private labels.

Mr. ALLMAND: It is increasing though, from what other witnesses have said before us. The independent stores are joining more and more in voluntary groups and are sharing in wholesale facilities and putting out their own brands?

Mr. EAGEN: Yes, that is right.

Co-Chairman Senator CROLL: Senator O'Leary?

Senator O'LEARY (*Antigonish-Guysborough*): On page 10 you show three price increases in 1966 on three different items?

Mr. ANDERSON: Yes.

Senator O'LEARY (*Antigonish-Guysborough*): When did these increases take place?

Mr. ANDERSON: Mr. Eagen, do you have the dates on those? These are right after pack time, when we evaluate the pack and industry supply. We depend on DBS and we see what our stocks are going to be and our ability to supply them.

Senator O'LEARY (*Antigonish-Guysborough*): Just for this year.

Mr. EAGEN: Beans this year, our new pack prices were announced on August 29. On peas our new pack prices were announced on August 9.

Senator O'LEARY (*Antigonish-Guysborough*): What percentage of your total pea sales, in any form, would come under the first category there, your 14-ounce? What percentage would you sell of frozen peas compared to canned?

Mr. ANDERSON: Our percentage frozen would be, I suppose, 1 or 2 per cent. Do you mean on a pound basis?

Senator O'LEARY (*Antigonish-Guysborough*): Yes, on a pound basis.

Mr. ANDERSON: It would be very small. I sort of hate to guess; I do not have the figure, and I do not want to say something that is not right. It is very small. Our business is canning, and we are new in the frozen business.

Senator O'LEARY (*Antigonish-Guysborough*): Let us go on the beans. This price increase also took place in August?

Mr. ANDERSON: Yes.

Senator O'LEARY (*Antigonish-Guysborough*): Approximately a 6 per cent increase. Your net profit position on the peas, the objective, is easily seen. What was the basic reason behind the increase in the beans?

Mr. ANDERSON: The basis reason is the increase in the container costs. I referred to that earlier.

Senator O'LEARY (*Antigonish-Guysborough*): That is the basic reason?

Mr. ANDERSON: That is one of the basic reasons.

Senator O'LEARY (*Antigonish-Guysborough*): What about the Clark's product, pork and beans? When did you take over Clark's?

Mr. ANDERSON: Actually, the parent company bought the Clark company and we were amalgamated, as I said in my opening paragraphs, effective legally April 1, 1966; but we just moved the office down in late August and September, and actually moved to our central office on October 17, while we were putting this together; so, right now, we are in it.

Senator O'LEARY (*Antigonish-Guysborough*): You started the distribution of the Clark's product approximately what month this year?

Mr. ANDERSON: I think you would have to say immediately after the amalgamation.

Senator O'LEARY (*Antigonish-Guysborough*): Has there been any increase in the Clark's products since you began distributing, to your knowledge?

Mr. ANDERSON: I do not believe so. I do not have the figures here, but we are still looking at this and trying to do project accounting on this, and we are using pretty much the budget figures we have. This business is so very competitive you are just in a very competitive situation.

Senator O'LEARY (*Antigonish-Guysborough*): Your cash discounts, of course, appear on the invoice?

Mr. ANDERSON: Yes, they do.

Senator O'LEARY (*Antigonish-Guysborough*): What about the volume discount?

Mr. ANDERSON: The volume discount is given once a year on a fiscal year basis.

Senator O'LEARY (*Antigonish-Guysborough*): At the end of your financial year?

Mr. ANDERSON: Yes. As I say, it is an accepted standard practice in the basic vegetable business.

Senator O'LEARY (*Antigonish-Guysborough*): On your Exhibit A, advertising and marketing to gross sales, would you object to substituting the word "promotion" for "marketing" there?

Mr. ANDERSON: On?

Senator O'LEARY (*Antigonish-Guysborough*): Advertising and marketing, the fifth item on Exhibit A. Would you object to using the word "promotion" rather than "marketing"?

Mr. ANDERSON: I think "marketing" probably covers a little broader field than just "promotion."

Mr. EAGEN: Do you mean "advertising and promotion"? I think "marketing" is the better term; it is a broader term, in my opinion.

Senator O'LEARY (*Antigonish-Guysborough*): I just noticed some of your competitors used "advertising and promotion," and did not give a separate figure.

Mr. ANDERSON: I guess this is just semantics.

Co-Chairman Senator CROLL: Mr. Whelan?

Mr. WHELAN: Mr. Chairman, Mr. Allmand asked most of the questions I wanted to ask about the containers, and there is probably not very much more I can ask about them, only to say I hope the consuming public of Canada realize now that the processors of primary products are not the reason for the increased cost of living, when you figure it would be cheaper for them to eat the contents of the can when the can itself costs more than the produce in the can.

One thing I wanted to ask was, Mr. Anderson, I believe, mentioned you do some farming on your own?

Mr. ANDERSON: Yes, we do.

Mr. WHELAN: Approximately how many acres of peas, corn and beans do you grow?

Mr. ANDERSON: Mr. Farrow, do you want to comment on that? He is our farmer, sir.

Mr. FARROW: I would say about 40 per cent of the total is on company farms.

Mr. WHELAN: This is on rented land?

Mr. FARROW: Yes.

Co-Chairman Senator CROLL: What was the answer?

Mr. FARROW: 40 per cent of the total acres would be on company farms.

Co-Chairman Senator CROLL: Total acres of what?

Mr. FARROW: Of products—peas, corn and beans.

Co-Chairman Senator CROLL: Mr. Urie asked you that question and you said, "No."

Mr. ANDERSON: No.

Mr. URIE: I did so.

Mr. WHELAN: No, he asked if they owned any land, and they do not.

Mr. ANDERSON: We do not own it.

Co-Chairman Senator CROLL: He asked if you farmed any land.

Mr. ANDERSON: No.

Co-Chairman Senator CROLL: All right, go ahead.

Mr. URIE: That is semantics too.

Mr. WHELAN: I particularly watched what Mr. Urie asked, because it is of great concern to many people. Have farmers refused to contract your crops? Is this the reason you are in production?

Mr. FARROW: No. I think there are many reasons why we are in farming. Basically, it permits us to do quite a bit of research in the farm end of it in the way of machinery and equipment, new varieties, methods, where in many cases the farmers have been reluctant to try these things. We have been able to try out new varieties and methods on our own farms.

Mr. WHELAN: One other question then. You do your own farming. Have you any idea of what your total investment would be in equipment?—and I am not talking about the harvesting equipment, because it has been a policy your company has had for many years that you own the harvesting equipment, but other farm equipment needed for cultivation and the planting of crops normally done by farmers previously, before you did any forming on your own. Farmers have this other equipment anyway, and use it for other types of farming. Have you any idea of how much money you have invested in tractors, plows and discs—all sorts of your cultivating equipment?

Mr. ANDERSON: No, but this could be dug out.

Mr. WHELAN: Is this a good operation for the company? Is this an economical operation for the company? Is it better than contracting with the farmers?

Mr. ANDERSON: These things have to be companionized. We believe they go hand in hand to do a good operation.

Mr. WHELAN: I think you are aware that many farmers are against this vertical type of integration, and I could see that if it was completely taken over it would be to the disadvantage of the consumer again.

Mr. ANDERSON: Yes. We believe that in our basic philosophy to be a good corporate citizen we encompass this thing; we believe in this, and we live it.

Senator McDONALD: Could I ask a supplementary question, Mr. Chairman?

Co-Chairman Senator CROLL: Yes, Senator McDonald.

Senator McDONALD: What is the total acreage you have under rent or rental arrangements that you farm yourself? You said 40 per cent of your production, but how many acres are involved?

Mr. ANDERSON: I do not have that figure.

Co-Chairman Senator CROLL: Cannot you estimate it? Surely you must have that figure.

Mr. FARROW: It would be about ten thousand acres in total.

Senator McDONALD: How many land owners would be involved in these ten thousand acres?

Mr. FARROW: I would say that the average leased farm is probably around 100 to 150 acres. Normally, these people who lease farms are retired farmers and widows—people like those who are looking for an income from their farms. They do not want to farm any more. There are some who are actually working in the city, and their farms are available for lease. We compete with other farmers in the leasing of these farms.

Senator McDONALD: And in the majority of the cases you rent the whole farm and not just a piece of it?

Mr. FARROW: Yes, normally we do.

Mrs. MACINNIS: I have a couple of questions to ask, and the first is about the cans themselves. Does the government specify how much of the product must be in each can.

Mr. ANDERSON: Yes.

Mrs. MACINNIS: Are the can sizes government sizes or your own sizes?

Mr. ANDERSON: They are government sizes.

Mrs. MACINNIS: In other words, the government has changed its size from 15 ounces to 14 ounces?

Mr. ANDERSON: No, this is a change in designation. Actually, the size is exactly the same.

Mrs. MACINNIS: Is there the same amount in the 14-ounce can as there used to be in the 15-ounce can?

Mr. ANDERSON: Yes. It is perplexing to us too.

Mrs. MACINNIS: Yes, it is a little difficult to understand. I am going to question you from the angle of a woman, a consumer, who is looking at this table on page 10. One thing that a woman would see on that page is, with the exception of one item in respect of which there has been no change, that every single one of those sizes that is suitable for a householder is up in price now from what it was in 1961.

Mr. ANDERSON: Yes.

Mrs. MACINNIS: That is the first thing she would see, and then she would want to know why. She would be casting about and saying that it is obviously a good product and, therefore, some research must have gone into it, and then she would turn to pages 8 and 9 of your brief and see—I am not talking about the frilly kind of woman, but theaverage, sensible kind of housewife—and see these paragraphs about consumer premiums. Now, you stated a few moments ago—and I took down your words—that consumers do not have to pay for the premiums. I want to question whether this is actually the case. It is true that the consumers do not have to take home the premiums, but do they not have to pay for them?

Mr. ANDERSON: In some respects there has to be a charge for those. They have to be covered somewhere.

Mrs. MACINNIS: Does not this put up the price of the article?

Mr. ANDERSON: Well, I think this depends on whether you are actually gaining the momentum, and gaining this position in the field, and actually allowing yourselves to grow, and putting the money into it—

Mrs. MACINNIS: But apart from that, does not this put up the price to the consumer.

Mr. ANDERSON: I think Mr. Eagen, who is our marketing expert, would like to speak to that, if he may.

Mr. EAGEN: First of all, Mrs. MacInnis, in connection with the prices to which you refer I will say that we have not taken specific items. The items here amount to only 60 or 70 per cent of our totalproduction. In addition to these we have other items that have been reduced in price. We have not selected—

Mrs. MACINNIS: Yes, but these are the big ones. I have followed carefully what you have said, so you do not need to go into that detail.

Mr. EAGEN: We have some additional items that we have not mentioned. In connection with the premiums we mention that we have not put out in-pack premiums. The premiums we have used have been write-in premiums. For the doll item the consumer sends in five labels. This is actually an expense to us. Other than the five cents that the person would incur in sending in the labels there is no money involved.

I think the other portion of your question might be answered by my saying that we have a promotion or advertising budget. We spend it on media advertising, for example, and some of it is spent in this selective way. This means, therefore, that the premium does not necessarily increase the price, because we have used some of our advertising dollars in this area.

Mrs. MACINNIS: But is it not true that the consumer has to pay for the Green Giant rag dolls, the express, and the colouring book? Is not that true?

Mr. EAGEN: It would be true if we were also to say that advertising as a whole is a cost—

Mrs. MACINNIS: All right. It is a cost, obviously. It is true that these things put up the price to the consumer. Do not go around the bush, please. Do they or do they not? Please answer Yes or No.

Mr. EAGEN: I do not think I can answer the question in that way.

Mrs. MACINNIS: Very well; that is all I need in the way of an answer. I will go on to my next point. I want to question the accuracy of this statement on page 9 of your brief:

> Coupons, for example, offer to the advertiser speed of action, flexibility, and geographic control—and to the consumer—savings.

I would like to know, in the light of what we have just gone through, how these coupons offer savings to the consumer. I wish you would tell me the answer to that one?

Mr. EAGEN: I will preface this by saying that we are not large users of coupons. I am defending these more on principle than on the ground of being a large user of coupons. One of the major areas in which these coupons are used is in our hand-out at the food building of the Canadian National Exhibition. These are packages of coupons that we provide. They are provided without a purchase by the consumer, and they permit her to go to her store and turn in the coupons and thus enjoy a reduction in her purchase price of up to five cents per coupon on, possibly, seven or eight items. Therefore, in my opinion, if she picks up 40 cents worth of coupons then they would represent a saving of 40 cents on her purchases.

Mrs. MACINNIS: But how much of that amount of 40 cents does she have to pay for the express trains, the Green Giant dolls and the colouring books. That is what I want to know. I would like to know how much she saves in view of the

fact that she has to pay for all of those. Whether she writes in and gets them or not she still has to pay for them. That is what I want to know, and it is what the women want to know.

Mr. EAGEN: That goes back to my previous statement, that this is all part of our national advertising and promotion.

Mrs. MACINNIS: I am talking about the consumer. Would it not be cheaper for the consumer if you cut out all of that, and sell her your goods without the express trains, the dolls and all the other stuff?

Mr. EAGEN: Not on the basis that it is all part of our national advertising campaign. We have shown to you that as we spend our national advertising dollars and increase our sales, we reduce our overall expenditure. Therefore, on this basis, I think that as we increase our sales we can reduce the price of an item to the consumer.

Mrs. MACINNIS: Look at page 10. There you show that between 1961 and 1966 every single item, except one, that a householder uses has gone up in price. How can you tell me that advertising and coupons cut down the price to the consumer, when every one of those items—the peas, the beans and all the rest—have gone up in price? How can you tell me that the advertising and coupons make for savings for the consumer?

Mr. EAGEN: This increase in price, of course, is not entirely due to advertising. We have shown that our costs have increased.

Mrs. MACINNIS: But a few minutes ago you told me that advertising was one of the costs.

Mr. EAGEN: Yes.

Mrs. MACINNIS: If you increase your costs, including advertising, do you not increase the cost to the consumer? I am an ordinary consumer, and to me this statement sounds logical. It may be lyrical to say you have made savings and everything else, but your balance sheet shows that you have raised prices as a result of all these gimmicks and advertising.

Mr. ANDERSON: It shows that we have increased prices, but it also shows that our prices have increased less than the consumer price index. It shows that our prices have increased less than the general costs. Other costs have gone up, but we have advertised less, and—

Mrs. MACINNIS: I will leave it at that, but I will ask you whether you have ever had a campaign among the women to find out whether they would prefer a cents-off policy, or whether they would be willing to pay just as much if they knew they could get a price that did not vary all the time—a price that did not fluctuate with cents off and on. In other words, do the women want competition, or do they want goods at a regular price that is predictable? Have you ever tried to find that out?

Mr. ANDERSON: I have not been here a long time, but I do not believe we do this in Canada. Do you know, Mr. Eagen?

Mr. EAGEN: No.

Mrs. MACINNIS: I have only a few more questions. On page 11 you say:

> The building of the market by means of advertising and other promotional devices makes price reductions possible for large firms.

Advertising makes price reductions possible, according to your brief, or according to Professor Borden, whom you quote?

Mr. ANDERSON: Yes.

Mrs. MACINNIS: Does it make price reductions actual?

Mr. ANDERSON: I think it makes them possible in this regard, that prices have not increased by as much as they would have increased. I think we are talking here about what they might have been.

Mrs. MacInnis: Your own balance sheet shows that you have not in the past five years passed those things on to the consumer; it was possible but not actually done?

Mr. Anderson: I think we have passed a great deal on to the consumer, because we have had the franchise, the new equipment, the new methods of doing things, and particularly the new research which makes this possible today.

Mrs. MacInnis: But you are claiming that those things make savings for the consumer possible, and yet these things are going up in proportion.

Mr. Anderson: We say they are not going up in proportion.

Mrs. MacInnis: Another thing, on page 4, where you say, "In 1964, our net profit amounted to only one-tenth of one cent per can."

Mr. Anderson: That is right.

Mrs. MacInnis: That does not mean anything to me unless I know how many cans there are.

Mr. Anderson: That is true. That would be on an average size.

Mrs. MacInnis: How many cans would you have in 1964?

Mr. Anderson: I don't know the figure, I do not have it with me, but it would be an average.

Co-Chairman Senator Croll: Can you not estimate the number of cans you use in a year?

Mr. Anderson: I wouldn't want to guess. I cannot figure that quickly, but we do have the figure.

Co-Chairman Senator Croll: Will you see that the figure is sent in?

Mr. Anderson: I will, sir.

Mrs. MacInnis: At the bottom of page 5 you give the cost per ton of your produce. What percentage of it comes from your own growing and how much goes to farmers?

Mr. Anderson: Well, I would have to say that this would relate to the number of acres. I don't know, I would have to divide it back.

Mrs. MacInnis: How do you relate that to what you say on page 11, which says:

> This research, so vital and necessary in Canada, makes possible not only better food, but more return to the farmer,...

If you look at the bottom of page 5 you will see that the actual cost per ton of these things in 1966 was down for two out of the three items.

Mr. Anderson: That is right. These figures are delivered costs.

Mrs. MacInnis: I see. Now, looking at page 2, you say:

> At Green Giant we recognize that a corporation has basic responsibility to three groups—its consuming public, its employees, and its stockholders. In order to discharge its responsibilities properly, a company must generate adequate profits. Therefore, we recognize the primary purpose of Green Giant of Canada Limited to be the making of profit over the long term, consistent with being a good corporate citizen.

Mr. Anderson: That is right.

Mrs. MacInnis: I want to ask you this. Is it possible for your company, or for that matter any other company, to satisfy all three, that is, the consuming public, the employees and the stockholders; or do you have to make a decision in favour of a third one, that is, satisfying the stockholders in order to stay in business?

Mr. Anderson: No; I would say that we strive to do all three. This is our corporate policy. It is written down.

Mrs. MACINNIS: Can you do all three?

Mr. ANDERSON: This is our goal. We certainly do.

Co-Chairman Senator CROLL: Senator Inman?

Senator INMAN: Mr. Chairman, Mrs. MacInnis did cover some of the questions I was going to ask. Mr. Anderson, do you put your own labels on tins, or do you send them to a company who has a franchise to do that?

Mr. ANDERSON: No.

Senator INMAN: I believe I do know that one company charges a cent for putting labels on the tins.

Mr. ANDERSON: We put our own on all of them.

Senator INMAN: You put them all on?

Mr. ANDERSON: Yes.

Senator INMAN: So you do not have to pay a cent per tin?

Mr. ANDERSON: That would be terrible.

Senator INMAN: Going back to this matter of giving away things, do you feel that these give away promotions do increase the volume of your business to a great extent?

Mr. ANDERSON: Yes, we do. We believe in it. There is no cost of this item that I do not look at with very jealous eyes. We certainly think this is an asset.

Senator INMAN: You spoke about the tins on the shelves and that if your competitors wrote the price down you would also have to do so.

Mr. ANDERSON: Oh, yes.

Senator INMAN: Where do you get your money. Does that also come from your budget to take care of such instances?

Mr. ANDERSON: Yes, this would come out of our goal.

Senator INMAN: In order to price your goods?

Mr. ANDERSON: Yes. We are always aware this can happen. In a business which is so competitive as this it does happen.

Co-Chairman Senator CROLL: May I ask a question following from an answer you made to Senator Inman? You said to Senator Inman that you felt that advertising was justified, that it brought more business to you. You had a bad year in 1964?

Mr. ANDERSON: Yes.

Co-Chairman Senator CROLL: Why did you not increase your advertising commitment for that year to try to recoup some business?

Mr. ANDERSON: I wasn't here then. But I guess the decision would have had to be that there just was not that much money. We were down in a pretty bad position.

Co-Chairman Senator CROLL: Were any of the other gentlemen here at that time?

Mr. EAGEN: Are you referring to 1964? I mentioned before, Mr. Chairman, that 1963 and 1964 were years of large packs for us. If you look at Exhibit A under "Sales allowances", you will see that we did increase our expenditures in that year. The reason is that we set up an advertising budget based on expected pack, but to get immediate results and to try to move the pack within the pack year we raised promotional sales allowance dollars, so although the advertising as such did not increase we did use the additional promotion in that year.

Co-Chairman Senator CROLL: Yes, but you see 1963 was not such a hot year either.

Mr. ANDERSON: No, it was not.

Co-Chairman Senator CROLL: You spent more in 1961 and 1962. 1961 was a fair year, 1962 was a little better. The advertising did not change in those years to amount to anything. 1963 was a bad year, almost half of what you made in 1962. You cut your advertising budget in 1963 and the profit was cut in half. You did not raise it at that time. 1964 was a very bad year, and it was raised a little bit, but nothing comparable to what you might expect from advertising results. How do you explain that?

Mr. URIE: Mr. Chairman, to assist in the answer to that question, perhaps you should make reference to the additional exhibit.

Mr. EAGEN: Exhibit A, is what I was referring to.

Mr. URIE: I refer to Exhibit B. In order to determine what actually was spent, do not only look at advertising, you must look at all these various items, and you will find that in 1966 the total of price promotion, co-operative merchandising, media advertising, marketing expense, came to 9.5 per cent of gross sales. In 1965 those four items amounted to 8.7 per cent; in 1964 11.1 per cent; in 1963 11.1 per cent; in 1962 10.6 per cent; and in 1961 19.9 per cent. Does that not indicate that your emphasis as between promotional devices and advertising varies from year to year?

Mr. EAGEN: Yes. That is why I said our advertising budget which is set at the first of the year remained somewhat static, because you cannot get immediate results from a nationally advertised program.

Co-Chairman Senator CROLL: Senator McDonald?

Senator MCDONALD (*Moosomin*): Under "Price Promotion" there is an increase to 471 in 1963 compared with 265 in 1962. This was a reduction of the wholesale price to the retailer, I presume?

Mr. EAGEN: Primarily that would be correct. This would be off invoice allowances and promotions of that kind.

Senator MCDONALD: Is any of that passed on to the consumer by the retailer?

Mr. EAGEN: Yes, it would be passed on. I do not know what the percentage is.

Senator MCDONALD: It would be a proportion?

Mr. EAGEN: Yes.

Senator MCDONALD: This is an increase in general advertising with a reduction in price to the consumer?

Mr. EAGEN: That is correct.

Senator INMAN: I am interested in anything that would bring down the price to the consumer. How do you grade the peas? Have you three brands, such as fancy, choice and standard?

Mr. EAGEN: There are three Government standards—fancy, top grade; choice, and standard.

Senator INMAN: Could you tell me what the differences in the prices are? I have not been shopping for a while.

Mr. EAGEN: Did you say prices? Is it the difference in the price or the difference in the grade?

Senator INMAN: The difference in price between the grades.

Mr. EAGEN: I am sorry, I have with me only the fancy prices. I do not have the comparative prices for choice and standard. Primarily, we are packers of fancy quality grade and this is where most of our business lies.

Senator INMAN: In fancy?

Mr. EAGEN: In fancy.

Senator INMAN: What do you do with the others? You must have a lot of them?

Mr. EAGEN: The choice or standard—we have small quantities of them. We have not, other than in the corn area, established a brand franchise where the product will be sold through the year. Usually with the small quantities available, we will pay a promotional allowance to try and move it out at one time.

Senator INMAN: I was wondering if a woman going shopping, with a family, would have a choice, and if there would be much difference in the price of the can, as to whether she would buy a fancy can or some other—would it be two or three cents more than the choice grade?

Mr. EAGEN: You are talking about retail prices?

Senator INMAN: Yes, from the shelf.

Mr. EAGEN: Do not commit me here, as I am not sure of the price; but I would say there would be two to three cents, possibly two cents difference per can.

Senator INMAN: Thank you, that is all.

Senator MCGRAND: On page 14, you mention that the cost of labour went up 40 per cent from 1961 to 1966. What percentage of the increased cost of your product would that be responsible for? How would you relate this increased cost in wages to productivity?

Mr. FARROW: That would be very difficult to do, sir, because over a period of six years you make many changes in production methods within a plant. It would be very difficult to relate it. There is no question that the productivity has increased. What the percentage would be I do not think we could say.

Senator MCGRAND: Would you say that the increase of 40 per cent in the cost of labour would contribute to the end price of your product?

Mr. FARROW: Yes. How much, I do not know.

Senator MCGRAND: It would be difficult to determine how much?

Mr. FARROW: Yes.

Senator MCGRAND: I wonder does productivity outpace the rise in the cost of labour, or does the cost of labour outpace the rise in productivity?

Mr. FARROW: I have not got the numbers here. This would be just my own view. I would think the increase in wages has outpaced the productivity, actually, in our particular situation. There is a limit to, say, how fast you can husk corn or process peas. You are limited physically by the equipment.

Senator MCGRAND: On this land that you rent, do you hire the work done or is part of it done by a contract?

Mr. FARROW: Part of it is done by our own regular personnel all the year round.

Senator MCGRAND: On wages?

Mr. FARROW: Yes.

Senator MCGRAND: And that goes into that 40 per cent?

Mr. FARROW: Yes.

Mr. URIE: Senator McGrand asked and received an answer to one of the questions I had. In regard to co-operative merchandising, under Exhibit B, what does it include?

Mr. EAGEN: Co-operative advertising would be the dollars that we set up on a per case basis for purchase of promotional activity at retail store level.

Mr. URIE: All right. Then you must have various plans, or a plan which you submit to the retailers for this purpose, or is it negotiated individually?

Mr. EAGEN: We set up a basis of 10 cents per case shipped of our national advertised lines.

Mr. URIE: Set aside for?

Mr. EAGEN: It is almost like a banking system. We set up the co-operative allowance. Most of your retail chains in groups have a price for various types of promotional arrangement which you can purchase from them. We purchase the co-operative advertising arrangement within a budget development of 10 cents a case. Let me make it clear that this 10 cents goes on fancy lines, which means the Green Giant line, plus the Blue and Gold brand.

Mr. URIE: And on your other quality?

Mr. EAGEN: We do not have a co-op on choice or standard.

Mr. URIE: So the price is fixed, the dollars which you spend are within the 10 cents a case; but the amount that you expend at any individual store is set from store to store, is that right?

Mr. EAGEN: That is correct.

Mr. URIE: Now, when is that negotiated? From store to store? From time to time, or is that over a period?

Mr. EAGEN: Both. In some areas we will set up a program on a yearly basis. This is to our advantage because we can pick better dates, pay weekends or holidays. In other areas we will arrange it on an individual basis at the time.

Mr. URIE: Is that with the stores or with the head office of separate chains? Does it vary from store to store within the chain?

Mr. EAGEN: Primarily with the head office. There are a few exceptions to that.

Mr. URIE: Where are the exceptions?

Mr. EAGEN: If there are some large independents who purchase from a wholesaler who does not have a co-operative advertising arrangement, we will contract an in-store arrangement with him on the 10 cents a case basis.

Mr. URIE: With the voluntary chains, such as I.G.A. by way of example, do you set that up, for example, in this area with Loeb Limited, or would you set it up with the independent retailer?

Mr. EAGEN: We set up the co-operative contract with the individual branches of the M. Loeb Corporation.

Mr. URIE: That is what I wished to know. As to the actual display of advertising material in use, I assume it is subject to your approval before it is used, or do you have any control?

Mr. EAGEN: When you buy the package promotion that I am talking about, it is spelled out as to what you do receive within the package.

Mr. URIE: One of your competitors furnished us with their particular merchandising plans for filing in the record. Do you have any similar plan or a plan which could be filed within the record, or sets of schemes?

Mr. EAGEN: Yes, we have two things. It is the philosophy of our company to be ethical with all our customers. To do this, we have an announced plan, so that everyone is aware that there is 10 cents a case available for co-operative advertising to them. This is written out. We follow this, in setting up an arrangement, with an advertising contract and I believe, Mr. Urie, it is the co-op contract you have in mind and I will be glad to submit copies of a contract to you.

Mr. URIE: What is the other one? You mentioned two?

Mr. EAGEN: Some chains for example ask us to confirm at the start of the year that co-operative promotion is still in effect, which we do. This is not general.

Mr. URIE: How do you distinguish between co-operative merchandising of that nature which you describe, and the dealer helps and consumer promotion, under marketing expenses, on Exhibit B?

Mr. EAGEN: Consumer promotion would be the type that we have discussed before, where there would be coupons or premiums involved. It would be in that order. Dealer helps would be point of sale material. We might have some special in-store material which we would supply to the stores. That is a very minor thing.

Mr. URIE: On price promotion, Exhibit B, what does that include? It is a very large item, $406,000 last year.

Mr. EAGEN: Price promotion, primarily, is a promotion based on a case allowance for a sale to a buyer. I think a good example of this would be an off-invoice allowance. That would be the best type of example.

Mr. URIE: Do you have any facilities for determining whether off-invoice allowances and cash discounts, perhaps not so much the latter, together with the other devices you use which result in savings to the retailer, do in fact result in roughly similar savings to the ultimate consumer?

Mr. EAGEN: We have no proof, Mr. Urie, of a percentage, let us say. We do know that in buying promotional arrangements allowances are usually reflected in reduced retail prices on aisle displays or shelf displays of the product, which would be to the advantage of the consumer.

Mr. URIE: I presume you subscribe to the various pricing services, or to a retail pricing service of some kind. I believe you said that earlier.

Mr. EAGEN: Yes.

Mr. URIE: Examination of those retail pricing services would divulge to you whether or not in fact these savings have been passed on, would it not?

Mr. EAGEN: They would.

Mr. URIE: From your analysis of the pricing services, are you able to state whether they have been?

Mr. EAGEN: May I correct that and say that they would, if the service is correct.

Co-Chairman Senator CROLL: Why do you buy it, if it is not correct?

Mr. EAGEN: We are assuming that it is correct. I am saying that there could be a possibility of it not being correct. We think it is correct and that we could find out from this.

Mr. URIE: There is no reason to believe it is not correct.

Mr. EAGEN: That is correct.

Mr. URIE: If it is correct, then, what have your investigations disclosed with respect to the prices after you have made certain deals with the retailers?

Mr. EAGEN: Mr. Urie, we do not really use the pricing service to police the passing on of allowances. I believe this is the point of your question.

Mr. URIE: That is the point of it.

Mr. EAGEN: We do this more through our own sales department. When we sign a co-operative advertising contract with an advertiser we require that particular sales office to actually make a check, an in-store check, to see that we are getting the promotion for which we are paying. Before an invoice is paid for co-operative advertising we require confirmation from our own sales department that in fact we did get the promotion arranged for.

Mr. URIE: Your objective in that regard is not to determine prices but to determine that you are getting value for your money. However, at the same time, do you ascertain that the savings have been passed on?

Mr. EAGEN: We ask if there was a price reduction other than the regular shelf price, so we do ascertain that.

Mr. URIE: I see. Thank you.

Co-Chairman Mr. BASFORD: May I ask a supplementary question. If you have this policing policy, as you call it, it must mean that you believe that some people would not give you the value you expect.

Mr. EAGEN: That is a leading question, Mr. Basford. I think it is just good business. If we are going to spend advertising dollars, we want to see that we get our money's worth. If we buy a page in *Chatelaine* magazine, for example, we want to have proof of the ad before we pay for it. It is not that we do not trust these people, but we do want proof. If we buy advertising at the store level, we want proof there as well.

Co-Chairman Mr. BASFORD: Have you ever found that you did not get value?

Mr. EAGEN: We have found on occasion that we did not receive the promotional support to which we felt we were entitled. In such cases, and they are very few and far between, there is usually some misunderstanding and we simply go back to the advertisers and point this out to them. They have been very co-operative in making up for this sort of thing. In other words, they will re-run a promotion, if we feel and can prove that the promotion did not live up to obligations in the first instance.

Senator O'LEARY (*Antigonish-Guysborough*): I just want to go back briefly, Mr. Anderson, to this matter of semantics. Where do sales commissions, field sales, salaries and expenses appear in Exhibit A? I presume that it would be under distribution expenses. They do not appear, but where are sales commissions, field sales, salaries and expenses included?

Mr. ANDERSON: In line four, sir, brokerage and field sales expenses, on Exhibit A.

Senator O'LEARY (*Antigonish-Guysborough*): Going on to Exhibit B, concerning your marketing expenses, you give a definition in brackets there.

Mr. ANDERSON: Yes.

Senator O'LEARY (*Antigonish-Guysborough*): What is in that "etc"?

Mr. ANDERSON: In marketing expenses?

Senator O'LEARY (*Antigonish-Guysborough*): Yes. "Dealer helps consumer promotion, etc." What is included in that "etc"?

Mr. ANDERSON: I believe Mr. Eagen touched on this formerly.

Senator O'LEARY (*Antigonish-Guysborough*): I am sorry if I missed that, but I would ask him to repeat it.

Mr. ANDERSON: That is fine. Mr. Eagen?

Mr. EAGEN: Actually, this is a catch-all, Senator O'Leary. Let us say we buy a special in-store Christmas display piece; rather than spell it out here, we have used this expression. That is the type of advertising which goes into this.

Senator O'LEARY (*Antigonish-Guysborough*): I am just going to conclude, then, by saying that, strictly speaking, that marketing item is a promotional item included as a portion of marketing expenses. It is a promotional outlet. It is not a matter of semantics at all.

Mr. ANDERSON: I guess that is fair.

Senator MCDONALD: I wonder if we could turn to Exhibit D for a moment.

Mr. ANDERSON: Yes.

Senator MCDONALD: I am interested in the tin or metal that you use in a can of beans. Is it a different metal from that which you use for a can of corn or a can of peas?

Mr. ANDERSON: Yes, it is.

Senator McDONALD: Is this because of some chemical reaction with beans?

Mr. ANDERSON: Yes. I think Mr. Farrow can help you more there. He is equipped technically. But that is right sir, it is a different type of tin plate.

Senator McDONALD: I just wanted to know if this was the case. I do not require any further evidence because it would not mean anything to me anyway. I wonder if we could turn to shipping cartons now.

Mr. ANDERSON: Yes.

Senator McDONALD: From whom did you buy your shipping cartons in 1966?

Mr. ANDERSON: From Hygrade Containers Limited.

Mr. FARROW: From Hygrade Containers Limited, Canadian International Paper.

Senator McDONALD: Is that the same company from whom you purchased your cartons in 1961?

Mr. FARROW: Yes, sir, it is.

Senator McDONALD: Would 24 cans of 14-ounce peas weigh the same as 24 cans of 14-ounce beans?

Mr. ANDERSON: I do not think they would weigh exactly the same, sir. I do not have the shipping weights with me, but they would not be exactly the same. They would be approximately the same.

Senator McDONALD: What I am getting at is that in 1961 the shipping container for 24 12-ounce cans of corn cost $84.98, and for 24 14-ounce cans it cost $88.97. In other words, it cost $4 a thousand in round figures more for the containers for 14-ounce cans than it did for 12-ounce cans. In 1966 you have the reverse situation. The containers for 14-ounce cans are $4 less than the containers for 12-ounce cans. Why should this be so?

Mr. ANDERSON: Sir, I would have to go to the specific invoice and see actually the strength and weight of the carton and so forth. There have been some changes over the years in the type of cartoning provided.

Senator McDONALD: Let us go back again to 1961. Look at the four figures, $90, $85, $89 and $83.50 in round figures. There is quite a spread from the top to the bottom. Then, if you go to the same figures for 1966, there is very little variation.

It looks to me as if the carton companies have simply levelled their prices and are charging the same price for all sizes, whether the costs have gone up or down for different weights. Is this a possibility?

Mr. ANDERSON: I could not answer this, sir. Actually, I just do not know.

Senator McDONALD: I suppose I have the wrong witness.

Mr. ANDERSON: Yes. I wish we knew more about their business, but we do not, sir.

Senator McDONALD: You said earlier that your company was going into the manufacture of cans and cartons. Is that right?

Mr. ANDERSON: Not cartons, sir, just cans.

Senator McDONALD: It looks to me as though you might do well to get into the carton business also.

Mr. ANDERSON: You have a point there.

Mr. WHELAN: You export more corn than anything else, I believe, and I was wondering if you had to have heavier cases for exporting corn.

Mr. FARROW: May I answer that question? That was true in the beginning, Mr. Whelan. When we first started out we were advised to have a certain weight of carton in order to get our products to England in proper shape. Subsequent experience proved that this was not so. In reality, we could use the same carton that we use in Canada.

Co-Chairman Mr. BASFORD: Mr. Eagen, earlier you gave us a breakdown of the different types of retail outlets in Canada. Roughly what percentage of your sales went to the 1,050 corporate chains?

Mr. ANDERSON: I do not have a figure on that, sir. Actually, I could not even guess.

Co-Chairman Mr. BASFORD: You do not know that either, Mr. Eagen?

Mr. EAGEN: I don't have a breakdown on that, Mr. Basford.

Co-Chairman Mr. BASFORD: But surely you are able to guess.

Mr. EAGEN: I would prefer not to guess. I would prefer to give you the figures.

Mr. JOYAL: But if these figures are 46 per cent of the volume, would it not follow that the sales would be 46 per cent?

Mr. EAGEN: I would say our percentage of sales would be higher, but I would not want to make a guess at this stage.

Co-Chairman Mr. BASFORD: What percentage would it be of the 7,410 voluntary chains?

Mr. EAGEN: I could not give you that breakdown either. We will give you a complete breakdown as soon as we possibly can.

Co-Chairman Mr. BASFORD: What percentage of the volume discount that you pay out is paid out to the 22,000 independents?

Mr. EAGEN: That is the same answer because it is based on the dollar sales.

Co-Chairman Mr. BASFORD: Might I take it that it would be very little?

Mr. EAGEN: It would be in the same proportion as our sales. When we give you the one, we will be able to give you the other.

Co-Chairman Mr. BASFORD: Are the independents able to take advantage of the volume discounts?

Mr. EAGEN: Yes, we have an open policy from $5,000 of sales upwards. From there on up it is on a graduated scale and everyone from that figure up receives volume discounts.

Co-Chairman Mr. BASFORD: But I doubt if independents are able to make use of the volume discounts.

Mr. EAGEN: It goes back to the point made earlier that a good number of them become part of a voluntary group and they therefore pool their purchases.

Co-Chairman Mr. BASFORD: They would be included in all your other voluntary chains, wouldn't they?

Mr. EAGEN: These people who are part of voluntary chains have their purchases pooled.

Co-Chairman Mr. BASFORD: But there are 22,000 outlets that are not part of voluntary chains, according to the figures you gave us.

Mr. EAGEN: That is correct, but they are retail stores, and we do not sell directly to retailers. We sell to the wholesaler who supplies them and he would receive this amount.

Co-Chairman Mr. BASFORD: Now with regard to the co-operative merchandising allowance of 10 cents per case, I imagine the 1,050 corporate chains take full advantage of this.

Mr. EAGEN: For the most part that is correct.

Co-Chairman Mr. BASFORD: So that at the end of your year there is little in the corporate chain accounts—very little credit balance left for promotional activities?

Mr. EAGEN: That is correct.

Co-Chairman Mr. BASFORD: What is the situation with regard to voluntary chains?

Mr. EAGEN: It would apply there also.

Co-Chairman Mr. BASFORD: How do the 22,000 independents participate in the allowance for promotional activities?

Mr. EAGEN: The co-op dollars follow the goods and therefore these are made available. We are talking now about the 22,000 retail stores, and we do not sell directly to them. But the co-op dollars are made available to the direct buyer who would be the wholesaler for use in connection with his independents. As I pointed out before, in some cases of larger volume retail outlets, we will deal directly with the retail outlets writing a co-op contract, and the dollars are paid to the retail outlet and deducted from the amount available to the wholesaler.

Co-Chairman Mr. BASFORD: As I see the situation you will make a large sale to Dominion Stores or Loblaw's or Safeway or Steinberg's which will immediately make available to them on a 10-cents-per-case basis a large co-operative account. I don't see how, in spite of how you set things up in your books, that is available to the independent retailer.

Mr. EAGEN: It is available to the independent retailer through the wholesaler. This 10 cents per case is on performance only. These dollars are available to the wholesaler for use with his independents on the same basis of 10 cents per case.

Co-Chairman Mr. BASFORD: To what extent is it used?

Mr. EAGEN: I would say it is used extensively. I would not say it is used as well or as thoroughly as for chain stores or co-operative groups.

Co-Chairman Mr. BASFORD: That is to say that you have at the end of the year in your total co-operative accounts a credit in your favour due to the portion unused by the small wholesale accounts?

Mr. EAGEN: Yes, our policy on co-op is that it must be used within the fiscal year. It is not carried over from year to year. Within the policy we have a slight variation; if the contract is submitted and signed before the fiscal year ends we will permit performance in the following month, if the dollars are available, but it is not carried from year to year.

Co-Chairman Mr. BASFORD: Would it be true to say that the co-operative allowances work to the greatest advantage of the corporate chains?

Mr. EAGEN: I would say it works—let me put it another way—I would say it is available on an equal basis to all retail stores who will perform and are in a position to perform.

Co-Chairman Mr. BASFORD: I know it is available to all because section 33B of the Combines Investigation Act makes it mandatory that it be available. But your evidence was that it isn't used as much, and the conclusion to be drawn is that it is of greatest advantage to corporate chains in spite of the fact that the law and your practice makes it available to everyone.

Mr. EAGEN: It is available to everyone.

Co-Chairman Mr. BASFORD: But in spite of the fact it is available to everyone, it works to the advantage of the corporate chains who are able to take advantage of the amount while the small purchaser is not able to do that.

Mr. EAGEN: Well, the smaller purchaser is able to take advantage of it, but it does not follow that he does.

Senator O'LEARY (*Antigonish-Guysborough*): May I ask a supplementary question? Do you have any policy whereby your field salesman attempts to sell to the retailer on a drop shipment basis on invoice by the wholesaler? I am speaking now of the fairly large independent.

Mr. EAGEN: No, we do not have a drop shipping policy. I would say no.

Co-Chairman Mr. BASFORD: To what extent are dealer helps available to the independent grocer?

Mr. EAGEN: I would say that dealer helps are just as available to the independent grocer as to the corporate chain stores. I qualify this by saying that it is used more at the independent level than it is otherwise. Chain stores as a rule prefer not to use help supplied by a manufacturer and therefore the dealer help is primarily used in the independent area.

Co-Chairman Mr. BASFORD: Now in Exhibit B, for 1966 co-operative merchandising—are you able to break down that figure of $237,000 as between what is being allowed to co-operate chains, voluntary chains and independents? I am not asking what has been allowed, but what has been taken advantage of.

Mr. EAGEN: Our records do not differentiate between the type of outlet, whether a co-op chain or voluntary chain or independent; but from the records we could glean the division in answer to your question. In other words, we do not have it broken out this way, but it could be.

Mr. ANDERSON: It would be quite a job.

Co-Chairman Mr. BASFORD: I would appreciate it, if it is not too much effort.

Mr. EAGEN: It is a rather large job. We have to go through each one of these, and it would take some time; it is a big job, but it can be done.

Co-Chairman Mr. BASFORD: I am sorry, senator, for taking so long; but, Mr. Anderson, of the $230,000 spent on merchandising—these are actual expenditures, are they not?

Mr. EAGEN: Yes.

Co-Chairman Mr. BASFORD:—What for that year would have been budgeted for that item? That is to say, you have to stand ready to pay 10 cents per case on all cases sold?

Mr. EAGEN: Yes.

Co-Chairman Mr. BASFORD: How many cases did you sell, in effect?

Mr. EAGEN: When we set up our advertising budget—for example, we would do that within the next month or so—it is based on our forecast sales during 1967-68. On this basis we would set up a co-op budget based upon our forecast sales. The amount spent could vary on the degree our actual sales vary that year from our forecast of sales. Does that answer your question?

Co-Chairman Mr. BASFORD: Yes, but I have a few more. If you had had to pay the co-op on each case sold in 1966, what would have been the co-operative merchandising figure?

Mr. EAGEN: Mr. Basford, I will depend upon memory here, and this will vary by year. I think our co-op expenditures against the actual developed is about 9.8 cents.

Co-Chairman Mr. BASFORD: What do you mean by "actual developed"?

Mr. EAGEN: I thought this was the sense of your question.

Co-Chairman Mr. BASFORD: I just do not understand your terminology.

Mr. EAGEN: I thought what you were getting at was we do not spend all the co-op dollars developed. My answer is we probably spend about 9.8 cents of the 10 cents per case developed. This the other 0.2 percent you mentioned we would not spend.

Co-Chairman Mr. BASFORD: Just to make myself clear, if you sell a thousand cases, then you have $100 available for the co-op?

Mr. EAGEN: Right, and the history of our expenditures would probably be $98 of that spent out of $100 developed. I again point out I am going by memory, but I think that is correct.

Co-Chairman Mr. BASFORD: How do the wholesalers take advantage of the co-operative advertising?

Mr. EAGEN: The wholesalers would take advantage of the co-operative advertising by our making dollars available to them for in-store merchandising by the retail outlets they serve. Again, I would like to reiterate this is not an off-invoice allowance: the wholesaler does not himself get the co-op dollars; they are made available to him as a merchandising tool.

Co-Chairman Mr. BASFORD: But I go into the corner grocer and I see your products on the shelf. He might end up the year only buying two cases of beans.

Mr. EAGEN: I hope more than that.

Co-Chairman Mr. BASFORD: But I see nowhere where he gets any advantage out of the allowance for co-operative advertising.

Mr. ANDERSON: If this independent store will build a display, for example—

Co-Chairman Mr. BASFORD: I do not see any displays in corner grocers.

Mr. EAGEN: Yes, we do get co-operation at that level, for example, in the area of handbills, that type of thing, he will be paid for.

Co-Chairman Mr. BASFORD: That would be made available to him through—

Mr. EAGEN: Through the wholesaler.

Co-Chairman Mr. BASFORD: I thought they were dealer helps rather than co-operative merchandising.

Mr. EAGEN: No, that is part of our co-operative. Dealer helps would be in store sales material—large cut-outs of the giant, for example, banners on overhead wires.

Co-Chairman Mr. BASFORD: Your figure, from memory, is 98 per cent of your co-operative merchandising allowance is taken up?

Mr. EAGEN: That is correct.

Co-Chairman Senator CROLL: You say on page 2:

> We suggest that more complete information on these new product lines can be supplied by those companies that have had longer experience in these areas of the food industry.

What companies have you reference to?—because we are new in this business?

Mr. ANDERSON: I guess Heinz certainly is in; Canadian Canners are in on all these; I would have to say Libby's, for a broad line; Stokely, Van Camp for some of these—they have bean and juice, I believe, and tomatoes—maybe they just have the peeled tomatoes.

Co-Chairman Senator CROLL: Are these the four leading ones? Are there any you have forgotten?

Mr. ANDERSON: Who have I forgotten? I guess that would be about it, sir.

Co-Chairman Senator CROLL: I am speaking of the chains. What is their normal turnover of your goods?

Mr. ANDERSON: Do you have a comment on that, Mr. Eagen?

Mr. EAGEN: Of course, we are really not an expert in that area.

Co-Chairman Senator CROLL: Nobody is an expert; we are all amateurs.

Mr. EAGEN: I would also qualify this by saying it depends on the area. For example, we will ship larger loads to western Canada. One major eastern chain will call in weekly orders, and I would think most of our other buyers, eastern chains, buy on a two-week basis.

Co-Chairman Senator CROLL: The evidence we have had here is that on some items 30 or 40 times a year, but on the average at least once a month.

Mr. EAGEN: I would think the turnover of chains on our major items would be higher than that.

Co-Chairman Senator CROLL: Would be...?

Mr. EAGEN: More than once a month.

Co-Chairman Senator CROLL: If he buys goods today how much time has he to pay for them?

Mr. EAGEN: 15 days.

Co- Chairman Senator CROLL: So by the time that he pays for the goods he has sold them?

Mr. EAGEN: If he is a good operator.

Co-Chairman Senator CROLL: Is that normal in the business?

Mr. EAGEN: Do you mean the allowance?

Co-Chairman Senator CROLL: No. What I am saying is, and what I have said was, he buys a thousand dollars worth of goods and has to pay in 15 days. By the time he has to pay he has already sold the goods and does not have to do any advancing or borrowing from the bank, but he is living on your money. Have you ever thought of it that way, or is that a bad way to think of it?

Mr. ANDERSON: We do not know whether he does it or not.

Co-Chairman Senator CROLL: In the normal course of business, is that what happens?

Mr. ANDERSON: I suppose this would occur.

Co-Chairman Senator CROLL: You just said he turns over twice a month; that is 14 days. You are billing for payment in 15 days. It just follows, as my co-chairman says, the logic is the chains have the money in their pocket and pay you before they get your bill.

Mr. ANDERSON: That could be.

Co-Chairman Senator CROLL: No, but is it?

Mr. ANDERSON: I really do not know their business, but it certainly could be.

Mr. WHELAN: It is "cash and carry": somebody else carries the chain, the consumer in the process with the primary producers.

Co-Chairman Senator CROLL: Has anyone any other questions?

Mr. WHELAN: I have two other questions I want to ask. Why does not Green Giant buy farm land and own themselves, rather than just rent it?

Mr. ANDERSON: I think it would take a very large investment. We are really in the processing business rather than the land investment business.

Mr. WHELAN: That is what we would hope, namely, that you are in the processing business. If you fired all your sales staff and promotional staff, and all the other people involved in this, how many people would be involved?

Mr. ANDERSON: Are you referring to our sales staff?

Mr. WHELAN: Yes, all over Canada.

Mr. ANDERSON: How many salesmen do we have?

Mr. EAGEN: I am hoping your comments, Mr. Whelan, will not find their way to our head office. We have 55 salesmen across Canada. We are actually small in this area.

Mr. WHELAN: Then, I have a supplementary question. For how long do you think you would operate if you did fire all your sales people? One of the ideas I am getting from these committee hearings is that we are against promotion and advertising. I do not want you to get the idea that I, for one, am against sales and promotion, because I know this builds volume, and volume creates employment

and everything else. I hope we are not getting across the idea to the processors or manufacturers that come here that we are against legitimate sales promotion.

Co-Chairman Senator CROLL: Mr. Whelan, in all the sittings we have had you are the first to suggest that. I have never heard it from anyone else.

Mr. WHELAN: What is that?

Co-Chairman Senator CROLL: That anybody here is opposed to sales promotion or advertising. All we are trying to do is get the facts in order to be able to reach some conclusion. I have never heard such an expression as that you made just now.

Mr. WHELAN: Maybe I put it in a rather crude form, not knowing the exact words to use. But, I have the feeling that we are against promotional programs and gimmicks.

Co-Chairman Senator CROLL: No, you are against them. Nobody else is. We are examining them to see what they mean, because we are not experts.

Co-Chairman Mr. BASFORD: Senator, your remark also should not be construed in the sense of our being in favour of it, either.

Mr. WHELAN: Mr. Anderson this afternoon we are to hear a witness, Mr. Fullerton, who has proposed in newspaper articles that there be a tax on advertising, or, in lieu of a tax, that companies be restricted from deducting advertising expenses for purposes of income tax. This idea was expressed in an article published in the Toronto *Daily Star* on October 17. Are you familiar with these proposals?

Mr. ANDERSON: No, I have not read the article, sir. I did hear this morning, I believe, as we were coming over that there was such an article, but I have never read it.

Mr. WHALEN: What would be your reaction to the disallowance of advertising expenses as a deduction?

Mr. ANDERSON: I am opposed to that. I think it would be a step in the wrong direction.

Mr. WHELAN: If there were a tax on advertising, what would you do? Would you put your money into other types of promotion? Do you think it would reduce the cost to the consumer?

Mr. ANDERSON: No, I do not, not in the long run. I think the history of the world almost proves this. I believe that for 150 years people much better informed than I have debated this thing. You can get reams of opinions, and I personally—this is a personal opinion—think it would be wrong.

Mr. WHELAN: When you say "wrong" do you mean—

Mr. ANDERSON: I do not think it would help. I think these foods are a bargain. I think that food, taking its price as a percentage of income in the free world, is a bargain, and this has been demonstrated.

Mr. WHELAN: You have not made any real study of it?

Mr. ANDERSON: No, sir, I am no authority here.

Co-Chairman Senator CROLL: Mr. Basford asked you about that co-operative merchandising item of $237,000 for 1966, and you said it would be difficult to obtain the information. You could get that for us for the chains and the voluntary chains, could you not? That would not be very hard, would it?

Mr. EAGEN: No.

Co-Chairman Senator CROLL: They will get us those figures. If there are no further questions I will say, as did Mr. Whelan, that Mr. Fullerton will be here at 3 o'clock to speak on advertising. We have had a great deal of discussion on this topic, and he has some views that we ought to hear, and they will enable us to make up our minds without being influenced by Mr. Whelan. You have some

answers to supply us Mr. Anderson, and we would appreciate it if you will furnish them to us as soon as possible.

Mr. ANDERSON: Yes.

Co-Chairman Senator CROLL: Thank you for coming down, and being so frank and open, and giving us the information you have. We appreciate it very much.

Mr. WHELAN: Mr. Chairman, before we adjourn, may I say that I know the Green Giant company and all the other processors in the area. The consuming public can be really sure that they are getting quality products. I say that because I grow them, and I know how careful they are in buying them, and I know of all the work they do on them before they are put in the can. If anyone has an opportunity to visit those plants in that area then they should do so, and they will then have a better idea of what goes into the quality pack and the fancy pack. One question that was asked implied that there was a lot of second grade quality, and asked what was done with it. I would like to say that if you saw what the processors do you would realize that very little of it ever gets to the stage of being second quality.

Co-Chairman Senator CROLL: I should point out to our witnesses, and to the Senate members of the committee, that Mr. Whelan is the member of parliament for this area.

Mr. WHELAN: No, on a point of privilege Mr. Chairman, Paul Martin is.

Co-Chairman Senator CROLL: Well, you speak for them, anyway.

The Committee adjourned.

EXHIBIT "A"

GREEN GIANT OF CANADA LIMITED

COMPARATIVE EARNINGS STATEMENT

Fiscal Years Ending March 31 — All figures in Thousands

	1966	1965	1964	1963	1962	1961
	$	$	$	$	$	$
Gross Sales	11,017.	9,620.	8,185.	8,357.	7,230	6,807.
Sales Allowances	416.	305.	407.	479.	273.	258.
% to Gross Sales	3.8%	3.2%	5.0%	5.7%	3.8%	3.8%
Cost of Goods Sold	7,488.	6,601.	5,821.	5,882.	4,594.	4,561.
% to Gross Sales	68.0%	68.6%	71.1%	70.4%	63.5%	67.0%
Brokerage and Field Sales Expense	269.	215.	229.	180.	168.	163.
% to Gross Sales	2.4%	2.2%	2.8%	2.2%	2.3%	2.4%
Advertising and Marketing	625.	532.	495.	458.	491.	415.
% to Gross Sales	5.7%	5.5%	6.1%	5.4%	6.8%	6.1%
Export Development	31.	39.	—	—	127.	56.
% to Gross Sales	0.3%	0.4%	—	—	1.8%	0.8%
Distribution Expense	362.	294.	244.	220.	178.	168.
% to Gross Sales	3.3%	3.1%	3.0%	2.6%	2.5%	2.5%
Volume Discount	185.	159.	138.	136.	105.	103.
% to Gross Sales	1.7%	1.7%	1.7%	1.6%	1.5%	1.5%
Interest Expense	176.	133.	161.	159.	108.	105.
% to Gross Sales	1.6%	1.4%	2.0%	1.9%	1.5%	1.5%
Cash Discount	132.	119.	110.	109.	90.	83.
% to Gross Sales	1.2%	1.2%	1.3%	1.3%	1.2%	1.2%
Administrative Expense	661.	537.	478.	491.	392.	338.
% to Gross Sales	6.0%	5.6%	5.8%	5.9%	5.4%	5.0%
Income Tax	338.	345.	52.	109.	344.	279.
% to Gross Sales	3.1%	3.6%	0.6%	1.3%	4.8%	4.1%
Net Earnings	334.	341.	59.	134.	360.	278.
% to Gross Sales	3.0%	3.5%	0.7%	1.6%	5.0%	4.1%

EXHIBIT "B"

GREEN GIANT OF CANADA LIMITED

SCHEDULE OF ALLOWANCES

Schedule of Advertising and Promotion

	1966	1965	1964	1963	1962	1961
Gross Sales Dollars	11,017	9,620	8,185	8,357	7,230	6,807
ALLOWANCES						
Price Promotion	406	296	390	471	265	250
Damaged Goods	10	9	8	8	8	8
Total	416	305	407	479	273	258
% to Gross Sales	3.8%	3.2%	5.0%	5.7%	3.8%	3.8%
ADVERTISING AND MERCHANDISING						
Co-operative Merchandising	237	202	138	141	130	111
% to Gross Sales	2.2%	2.1%	1.7%	1.7%	1.8%	1.6%
Media Advertising	308	239	257	264	297	263
% to Gross Sales	2.8%	2.5%	3.1%	3.2%	4.1%	3.9%
Marketing Expense	80	91	100	53	64	41
(Dealer Helps and Consumer Promotion, Etc.	0.7%	0.9%	1.2%	0.6%	0.9%	0.6%
Total	625	532	495	458	491	415
% to Gross Sales	5.7%	5.5%	6.1%	5.4%	6.8%	6.1%

November 8, 1966.

EXHIBIT "C"

GREEN GIANT OF CANADA LIMITED

RAW PRODUCT COSTS PER TON—1961-66 PACK YEARS

	1961	1962	1963	1964	1965	1966
	$	$	$	$	$	$
Peas						
Delivered to Plant Cost	164.96	155.76	174.10	143.22	132.40	178.04
Snap Beans						
Delivered to Plant Cost	104.64	110.04	136.26	86.80	111.50	98.54
Corn						
Delivered to Plant Cost	28.38	26.80	28.90	28.34	31.10	31.26

EXHIBIT "D"

GREEN GIANT OF CANADA LIMITED

CONTAINER COSTS
(Cost per Thousand)

	1961	1962	1963	1964	1965	1966	% Change 1966 vs. 1961
	$	$	$	$	$	$	$
Cans and Covers							
300 × 407 (Peas)	32.82	33.32	33.32	34.05	34.75	35.45	+ 8%
307 × 306 (Corn)	33.46	33.79	33.79	34.51	35.23	35.94	+ 7%
300 × 407 (Corn)	32.82	33.32	33.32	34.05	34.75	35.45	+ 8%
300 × 407 (Beans)	32.97	34.59	34.59	35.32	37.53	39.55	+20%
Shipping Cartons							
24/14 oz Peas	90.35	88.54	91.20	91.20	91.20	93.91	+ 4%
24/12 oz Corn	84.98	87.88	90.58	90.58	90.58	94.24	+11%
24/14 oz Corn	88.97	84.46	87.02	87.02	87.02	90.54	+ 2%
24/14 oz Beans	83.60	84.46	86.97	86.97	86.97	93.81	+12%

NOTE: Cans and covers are invoice price less 5% volume discount. Shipping cartons are less 5% off invoice carload quantity discount.

Figures on shipping cartons do not reflect 5% increase which became effective October 1, 1966.

Upon resuming at 3 p.m.

Co-Chairman Senator CROLL: I call the meeting to order. We have with us this afternoon Mr. D. H. Fullerton, President of Fullerton, Mackenzie and Associates, a firm of investment consultants. Mr. Fullerton is the author of the book, *The Bond Market in Canada*, and of numerous articles in newspapers and periodicals. He has written for my favourite bible, the Toronto *Star*, and the not so favourite *Canadian Banker*. Mr. Fullerton graduated from McGill University in 1939 with a masters degree. He was with the armed forces for five years, following which he was with the Civil Service in the Department of Finance.

Mr. Fullerton has some views on advertising and the bond market which we thought we should hear.

D. H. Fullerton, President, Fullerton, Mackenzie and Associates: Mr. Chairman, my remarks today are related to two aspects of the problem of rising consumer prices. The first is the effect of inflation upon the capital market, and the derived effect of tightness in the capital market upon consumers. The second point relates to a column I wrote recently proposing a tax on advertising as an anti-inflationary measure. On both counts I propose to be brief.

My first comment concerns the impact of inflation on the capital market and its consequences. Recently I wrote an article for the October issue of *Canadian Business* entitled "Is the Bond Market in Jeopardy?" Copies of this are available and have been passed around to you.

(*See Exhibit "A"*)

My essential point was this: the investor in long-term bonds is prepared to accept a moderate increase in prices annually, say one to 2 per cent, provided that he receives an adequate interest return. However, bond buyers will not be prepared to accept inflation of the order of four to five per cent per annum for long. As a result of price rises of the past year or two, there is a growing malaise and reluctance on the part of investors to buy long-term bonds, threatening the very existence of our capital market.

This lessening of investor confidence in such bonds is due essentially to two things:

1. The steady fall in the purchasing power of money;
2. The effects of monetary policy to counteract inflation.

You are all aware of what falling prices do to an investor who buys long-term bonds. Their capital value falls as inflation goes on.

You are perhaps not quite so conscious of the fact that monetary policy designed to slow down inflation also damages the bond investor's assets. It does this by pushing up interest rates and this, in turn, means falling prices for outstanding bond issues.

For the consumer, tighter money and rising interest rates raise costs in a variety of ways. He must pay more interest on the mortgage of a house he buys; he must pay higher property taxes because municipalities are required to pay higher bond interest rates on new debt. He has to pay higher interest charges on the money he borrows to finance the goods he buys on credit. Costs of goods rise because manufacturers' and retailers' interest costs are up. Thus, while the effects of tighter money may be to slow down inflationary pressure, they exact their own price from the consumer.

My second point concerns the proposed tax on advertising which appeared in my column in the Toronto *Star* on October 17, and copies of which are also available.

(*See Exhibit "B"*)

First, let me say that I have no special claim to expertise in the tax field, although I did spend six years in the Department of Finance. I suggested that an

advertising tax in a time of inflation be considered largely because it seemed like an interesting idea for discussion. I must say I was somewhat startled to find myself designated last week as "Enemy No. 1" in the eyes of the Canadian advertising profession, but if that is the price for putting forward implied criticism of the world of the advertisers, I must pay it, I presume.

All of us will accept the premise that people buy goods and services to a large degree because of advertising. But if one accepts the fact that advertising works, it must also be acknowledged that at times it works too well. When inflation threatens—and particularly inflation of the demand-pull variety—then surely the more successful advertising is in persuading consumers to consume, the greater the pressure on available supplies and on prices. And, as we all know, most advertising is directed at persuading people to consume—not to save!

One may therefore compare advertising in an inflationary period to throwing gasoline on a fire that is already burning briskly. How successful do you think the authorities would have been in holding North American prices down in World War II—and they were fairly successful—if advertising for consumer goods had not been greatly curtailed, and much of the efforts of advertisers switched to promoting savings? It is true an advertising tax was not used to accomplish this diversion, but the object was achieved by the wide recognition of the obvious needs of the time, backed by government edict, moral suasion and rationing of paper.

I must admit that there are a number of problems associated with a tax on advertising. Not least is that it would tend to reduce the income of the communications media, including newspapers, magazines and television, and the tax proposal is consequently unlikely to obtain much support from them. The full impact of any tax would of course tend to be spread among the media, the advertisers, and the agencies. Not surprisingly, the advertising profession will tend to base its attack on the proposed tax as an effort to curtail freedom of the press! If they cannot wrap themselves in the flag, or praise motherhood, they fall back on the freedom of the press!

One officer of the Canadian Association of Broadcasters is quoted as saying, in commenting on the proposed tax:

> ...it would pull a black curtain over the white light of full and free information that is the flower of democracy. ... The free expression of all shades of opinion is made possible only through advertising revenue. This alone guarantees impartial information, diversity of opinion, full and fair disclosure of fact.

My own feeling and I admit it is a personal one, is that the growing dictatorship of the communications media by the advertisers—as I suspect is now the case—could be just as devastating to our culture and to our freedom as the feared assistance to the media from government.

It can certainly be argued fairly that an advertising tax is a blunt instrument that does not differentiate between essential and non-essential, and between the encouragement of consumption and that of savings. We have the further problem of our proximity with the United States. Can we tax advertising if the Americans do not? It might also be desirable to distinguish between two kinds of advertising. The first group might be designated as that which carries specific and detailed information to the consumer, for example, want ads, mail order catalogues, retail store advertising. The second group, which appears to me to merit taxing much more than the first group, is product advertising of the brand name variety—cigarettes, corn flakes, drugs, patent medicines, cosmetics, and so on. It might be difficult to differentiate between the two types, but I think that it would be worth the effort if a tax is to be applied.

Although I would not want to push the analogy too far, I think the difference between the two forms of advertising may be similar to that between current and capital expenditures. Retail stores convey price information to

potential customers, a legitimate and proper selling cost—the cost of operations. Brand name advertising builds up consumer demand with little information—and often plenty of propaganda—in the message. As such, it might well be regarded as capital expenditure, not deductible for tax purposes but depreciable.

Another way of approaching it might be to apply the tax to advertising by manufacturers only. I would include in that their payments to any foreign parent companies or to Canadian retailers for shared-cost advertising campaigns.

I bring these problems up without attempting to answer them in this summary. However, I am firmly of the view that, although exemptions will be required, the principle appears to be a valid one—that advertising has an inflationary impact and anything which reduces this impact is sound anti-inflationary policy. In this connection I would like to quote remarks made last week in Rome by the Governor of the Bank of Canada, when he referred to some apparent inadequacies of monetary and fiscal policy in containing inflation. Mr. Rasminsky said:

> ...a basic assumption on which monetary policy, as well as fiscal and other policies directed towards affecting the level of aggregate demand, depends is that if total demand is not excessive, competition in the economy will ensure that reasonable price stability is maintained. If competitive forces cannot be relied upon to ensure that technical progress in production is reflected in the pricing policy of corporations and to keep income demands within reasonable bounds, that is, within the bounds of what the economy can really provide in the form of goods and services at reasonably stable prices, clearly some workable supplementary measures must be found. These supplementary arrangements cannot be a substitute for over-all policies which keep the increase in aggregate monetary demand within the real capacity of the economy to expand. But the experience of many countries suggests that monetary and fiscal policies need to be supported by some technique which mobilizes the force of public opinion behind non-inflationary behaviour by those who are in a position to deploy strong market power.

I suggest that a tax on advertising, during an inflationary period—and I emphasize this—would be a good and workable supplementary measure of the kind described by Mr. Rasminsky.

Mr. ALLMAND: Regarding the effectiveness of your proposal with regard to advertising, I do not ask this because I am necessarily against your proposal but because it is a new thing and some questions come to my mind. If we pay the tax, such as you suggest on advertising or put controls on it, sales promotion might appear in some other form which may be more expensive and still may do just as much to promote demand in an inflationary period. I will give examples of such things.

I notice that, in your article in the Toronto *Star*, you say you would like to see a fairly comprehensive definition, and you even include public relations departments. I had intended to ask you about the point that if you control advertising this would appear in public relations. However, there are some other things.

In some of the professions right now, advertising as such is banned. Lawyers are not allowed to advertise, by their own rule. However, they promote themselves in other ways—they have expenses for putting their men in clubs, they have entertainment budgets, they advertise through the slick use of their letterhead and the writing of letters; and by getting some of their partners into politics, perhaps.

Senator CROLL: To ask questions in a committee such as this.

Mr. ALLMAND: They do promote themselves in other ways. They are allowed to put their cards, in Quebec, anyway, in legal publications but they cannot advertise as such. It comes out in another way.

In Quebec, for instance, there are limitations on advertising of beer and alcoholic liquor but you can organize groups and be invited to breweries and be given beer free in rooms and dined and wined, and so forth. There are other things which can be done.

Someone here told us they sent sales representatives into hospitals so that they could meet the mothers as soon as their children were born. It seems to me that a lot of other things would just take the place of sales promotion. It may be that I am wrong. By controls on advertising we may get a big sales attack. People may start to sell things as they do life insurance, by personal contact with individuals, or as the Singer Sewing Machine does, by having Singer centres where they meet the public, by using packaging and in other ways. I am wondering if you have looked into this possibility?

Mr. FULLERTON: That certainly is a valid criticism of the plan. It would tend to drive advertising under the table, you might say. After spending some further time thinking about this scheme, my impression is that the big target has to be brand name advertising. You slow that down and you slow down the buying incentives that keep our inflationary pot boiling. Clearly, the tax cannot be comprehensive, it has got to be limited in scope.

I put that point in my Toronto *Star* piece and I thought about it afterwards. I have concluded that you cannot actually give a broad and comprehensive definition of advertising and public relations—it spreads out completely across all business. Therefore, I would say that by restricting it to brand name advertising, your main goals would be achieved.

Mr. ALLMAND: Have you made these proposals to the Carter Commission on Taxation?

Mr. FULLERTON: No, I have not.

Mr. ALLMAND: Do you know if something like this is done in other countries?

Mr. FULLERTON: No, I don't, my impression is that it has been talked about in principle. The principle of taxing advertising generally has been talked about but I have never seen or heard of it being proposed as an anti-inflationary measure.

Mr. ALLMAND: There is another thing which comes to my mind immediately. All advertising is through some media—either magazine, newspaper, radio, television. It would seem to me that if you are going to curtail advertising we will pay more for newspapers. If they cannot get revenue through advertising, probably the charge will be ten cents for newspapers, 50 cents for magazines and pay as you go for television and radio. Right now we are paying for these things indirectly. We are paying for television by buying soap and Kellogg's cornflakes, and we will just be paying for them in another way.

Mr. FULLERTON: I was told by a friend in the *Star* that if this tax comes in they will cut my fee for writing the column, for instance. That is obviously a consequence of an advertising tax. It would cut down the income of media to some extent. I expect it would be to a comparatively small extent, but the purpose is to slow our economy down.

Co-Chairman Senator CROLL: How do you slow the economy down? Most advertising is arranged for and placed a year in advance. How do they know whether we are going to have an inflationary tendency at that time or not. Many things that we have here in the way of advertising and that we dealt with was contracted for a year in advance, anyway. How do you deal with that?

Mr. FULLERTON: Did Mr. Gordon, at the time the sales tax on the construction industry was slapped on, make an allowance for the fact that construction is

planned sometimes five years in advance? Taxes are taxes and they usually come without notice. If your plans are made and the tax is applied, you will either pay the tax or cut back on your program.

Co-Chairman Senator CROLL: What tax did you have in mind, what percentage?

Mr. FULLERTON: You mean, 5 per cent or 20 per cent?

Co-Chairman Senator CROLL: Yes?

Mr. FULLERTON: No, I do not have any amount in mind.

Co-Chairman Senator CROLL: What is spent in advertising?

Mr. FULLERTON: $800 million per annum, in Canada.

Co-Chairman Senator CROLL: The total, in the various media?

Mr. FULLERTON: That is what I am told.

Co-Chairman Senator CROLL: You have no figure in mind at all?

Mr. FULLERTON: No, I have not.

Mr. JOYAL: You had one in your article in the *Star*?

Mr. FULLERTON: I had a nominal figure.

Co-Chairman Senator CROLL: What was it?

Mr. JOYAL: 20 per cent.

Mr. FULLERTON: "Say 20 per cent." I had no planned tax at all.

Co-Chairman Mr. BASFORD: I take it that this proposal is strictly put forward as an anti-inflationary measure. Would not an increase in the personal income tax accomplish the same purpose?

Mr. FULLERTON: No.

Co-Chairman Mr. BASFORD: Not that I am possibly suggesting that.

Mr. FULLERTON: All taxes are anti-inflationary. All I am saying is that advertising is similar to gasoline that is being thrown on an inflationary fire, and being so flammable it does merit consideration as a possible tax, among the whole spectrum of possible taxes.

Co-Chairman Mr. BASFORD: I take it, it is based on the sentence:

> All of us will accept the premise that people buy goods and services to a large degree because of advertising.

Which I take it is another way of saying that advertising increases consumption?

Mr. FULLERTON: That is right.

Co-Chairman Mr. BASFORD: I do not know that I am prepared to accept that statement. I was looking for some material here that I have not found. Is not most of the function of advertising today simply to get people to change from one product to another?

Mr. FULLERTON: I suppose so.

Co-Chairman Mr. BASFORD: It has not in fact increased consumption.

Mr. FULLERTON: Well, my opinion is that it does increase consumption. I buy the arguments of my advertising friends, who say all the time that it builds markets for them. I suspect that our total consumption goes up because of advertising.

Now, some brand name advertising is certainly of a Peter or Paul variety, but the totality of it is to step up expenditures.

Co-Chairman Mr. BASFORD: I will see if I can find what I was looking for and then come back again.

Mrs. MACINNIS: I have just two or three questions I would like to ask, Mr. Chairman. The other night in the house I made a similar proposal in connection

with food, and I am interested in finding out what would be the scope of advertising as you would be thinking of it. How wide would you go?

Mr. FULLERTON: My own second thoughts, after putting out my first piece, are that you probably ought to concentrate your tax on brand name manufacturers' advertising. That (indicating the picture of an ad) is the kind of advertising I am talking about.

Mrs. MACINNIS: By any media?

Mr. FULLERTON: T.V., radio, magazines.

Mrs. MACINNIS: The second thing I wanted to know was whether it is only the cost factor that you would be seeking to control, because you said something a little while ago to the effect that there would be an objection raised on the basis that it would be interfering with the freedom of the press. However, you said that you thought there were other types of danger to be feared from advertising, and that that should be controlled. Would you enlarge on that?

Mr. FULLERTON: That is perhaps a bit off my main pitch. I suggest that the tax ought to be thought of as an anti-inflationary measure, but my own personal views on advertising are rather strong. They are based on the feeling that much of it is morally offensive, is dangerous to our society, corrupts and even kills. For instance, some child will die because of this ad. (Indicating a cigarette ad.) He will die of lung cancer or through heart disease or emphysema.

Co-Chairman Senator CROLL: He might just die, as most of us will. That is all.

Mr. FULLERTON: All right. He might just die, but he will probably die a little sooner. However, that again is apart from my main proposal.

Mrs. MACINNIS: I have just one last question. You think it would help to keep down the prices of retail goods to the consumer, for instance, foods and other things; it would help to keep prices down or lower prices by putting a tax on advertising.

Mr. FULLERTON: Yes. My feeling is that it would have a rather profound effect upon the price of food and drugs. Perhaps I might give you an example of the kind of thing I am talking about, if I may bring this up. The Kellogg Company in the United States is a big and powerful company which practically controls the breakfast food industry. I have an article in Forbes Magazine, an American business magazine, which describes the Kellogg's sales pitch to the "kids". It says:

> Take one aging Olympic star with bulging muscles and a fixed smile. Add a whisky-voiced nightclub comedian with a nose others would pay through the nose to get fixed. Throw in a happy-go-lucky bear with a pork pie hat and a dancing scarecrow. Top them all off with a wily little sea captain, as salty as the Spanish Main. And what have you got?
>
> *Cereals salesmen . . .*
>
> They are a very expensive group of pitchmen. . .
>
> These supersalesmen are worth every cent they cost. For the profits on cereals are enormous. The ingredients that go into a box of cereal selling for 37 cents cost only a few cents. A top-selling brand can net as much as 20 per cent after all the expenses of making and marketing it, including the TV commercials. Not surprisingly, Kellogg, whose business is almost entirely in dry cereal, last year earned a solid 22.6 per cent on its stockholders' money, netting $35.3 million on sales of $366 million.

I could go on but the story is the same: it is a splendid stock to buy!

Co-Chairman Senator CROLL: What effect would a tax have on advertising? Do you think that there would be less money spend on advertising?

Mr. FULLERTON: Well, my own impression is that the total money spent cum tax would go up, but the total minus tax would fall somewhat. It would end up with a compromise. There would be some net drop in the volume of space, but there would be some total expenditure rise, with the tax making up the difference.

However, that is only my impression. I cannot document it. It is impossible to prove any of these things.

Co-Chairman Senator CROLL: I realize that. It seems to us here from the evidence that we have heard that, so long as there is an opportunity to sell the goods and there is the opportunity for the market, they are prepared to spend any amount necessary for that market, and it will not make any difference what tax is put on—any more than it made any difference putting on an 11 per cent building tax. Houses still go up regardless of that tax and people are still prepared to pay for those houses.

Do you think a tax will lessen the cost to any extent?

Mr. FULLERTON: My impression is that taxes of all kinds tend to slow expenditures down somewhat. Perhaps it is only marginally; perhaps it is a lot. I cannot estimate this, really.

Co-Chairman Senator CROLL: Just before you came up here, I made a note from my recollection of what is going on today that those who spend a high amount on advertising tend to earn profits higher than those who do not undertake high expenditures on advertising. That has been our history here, at any rate.

Mr. FULLERTON: Advertising works.

Co-Chairman Senator CROLL: Yes, but, if the object of a tax is to lessen the size of profits, is the tax going to stop them from advertising?

Mr. FULLERTON: My only answer is that it is bound to have some effect towards slowing it down a bit. Perhaps a lot. It all depends upon the product, the media and so on.

Mr. MCCUTCHEON: Mr. Fullerton, I enjoy reading your articles, sir, and I enjoyed this one in the Toronto *Daily Star*. I would just like to quote one sentence from it, and I believe you will know to what I am referring: "Favours private spending over more desirable collective social wants."

Now, you have stated that you feel that this advertising tax would have the effect of being anti-inflationary. I submit to you, sir, that what you are saying is that we should have a socialistic control over our economy, lock, stock and barrel.

Mr. FULLERTON: No.

Mr. MCCUTCHEON: Is this not true, on the basis of what I have quoted to you?

Mr. FULLERTON: Let me perhaps go back. Where, in this article, is the part that you just quoted?

Mr. MCCUTCHEON: It is in the first column, the third paragraph.

Mr. FULLERTON: My point is that our society is spending millions on cigarette publicity and not much on selling the advantages of medicare. This is my point.

Mr. MCCUTCHEON: Mr. Fulllerton, this brings me right back to the point again. We are in a private enterprise economy, and these people advertise to make money; so your opinion here is completely at odds with that.

Mr. FULLERTON: My point is very clear, and quite explicit, that profits conflict at times with maximizing social benefits in our society. Our society is a free enterprise economy, and conflicts are occurring all the time in this field. You

are absolutely correct. Profits cannot be our only goal in our society, or what kind of a society do we get?

Mr. McCutcheon: I grant you 100 per cent that this is abundantly true. However, legislation, and it does not matter what legislation is brought out, the rule that the Government must try to adopt is legislation that will hurt the least people. I submit to you, and I agree with you that we are on an advertising binge in this country, but I have to be sold a little more on this tax.

Mr. Fullerton: So do I. I am bringing it up as an idea. The purpose of it is to talk about it.

Co-Chairman Senator Croll: We in Parliament are good at that.

Mr. Fullerton: In thinking of applying taxes on things or on people the tax structure is really based on moral principles, practically straight down the line. We can tax that cigar you are smoking because people think that smoking is bad, and we can tax drinking because people think drinking is bad. We can bring in a progressive income tax because the rich deserve to be taxed. We can apply customs taxes because foreign goods are bad for us. There is a constant moral imperative that undelies our tax structure; and I am saying, and perhaps this is the point that Mrs. MacInnis raised, that some of our advertising is bad—it is bad for us, bad for our society and bad for our culture, and therefore possibly on those grounds it merits taxes. My objective, though, is not to make my case on that fairly solid ground. Personally I put it on the broader basis that a tax on advertising in an inflationary period tends to slow down the pressure on consumers to buy and consequently it is good.

Mr. McCutcheon: We are both on the same side, we both like to see prices come down. Our methods may differ a little.

Co-Chairman Senator Croll: Senator Carter?

Senator Carter: I think it is very clear, as Mr. Fullerton points out, that if we could find some means of curtailing advertising, special kinds of advertising, we could kill two birds with one stone. We would decrease consumer demand and reduce the cost of production. However, if we should try to do it by means of a tax, I think it would be self-defeating, because certain companies must advertise to live. If they don't advertise they go out of business. For instance, baby food has a very small range on the market, and the manufacturers must continually keep their product before the young parent. But is there not some way of achieving this by means of an incentive instead of by a tax? A tax would be self-defeating, because if people sell for less their profit is less, and you have to make it up with tax somewhere else. If you do not collect from corporations by means of corporation tax, you have to collect from income. Have you ever thought about an incentive, some means of incentive to encourage a reduction in advertising during inflationary periods?

Mr. Fullerton: My impression is that a tax is a kind of incentive in reverse. It is the question of the carrot and the stick, and there is some difficulty in imagining the kind of carrot you need as an incentive. Perhaps it is possible, I am not saying it is not.

Senator Carter: But if there were some means of devising a rebate, a percentage reduction for a number of points in advertising in certain varieties, would that not have the same effect without the disadvantages of the tax?

Mr. Fullerton: You mean to subsidize manufacturers for abstaining from advertising?

Senator Carter: Yes. You would not be creating all the problems that an advertising tax would do. We have learned from our questions here that firms experiment, and later on they come up with a package, the right mix, and very often they are able to reduce their advertising, and it seems to me that that would achieve the same results.

Mr. McCutcheon: I think perhaps what you are suggesting, Senator Carter, is something like the American program of the soil bank, where something is taken out and not put back.

Senator Carter: It didn't work very well.

Mr. McCutcheon: If it does not work any better than that, I suggest we should not spend any more time on it.

Co-Chairman Senator Croll: Mr. Prittie?

Mr. Prittie: Mr. Chairman, I became interested when Mr. McCutcheon seemed to think Mr. Fullerton was advancing socialistic ideas. Being an investment consultant, he is not likely to do that. I suggest that that has been said a good many times in recent years. This is precisely what Galbraith said in *The Affluent Society,* and I do not think there is anything particularly socialistic about advocating that sort of thing, which would bring about the satisfaction that the public wants. It is a common idea, and I think many of us accept it here.

I do not know whether this is a question or not, but I will pose it as a question. You are suggesting a tax on certain kinds of advertising as an anti-inflationary measure to reduce the cost, and that that would have certain side effects that might achieve the other effect that was mentioned here, that revenues would then be available for public purposes?

Mr. Fullerton: Yes, so that tax revenue would be available for social purposes.

Mr. Prittie: Let us take another example you used, that of cigarette advertising. That might also be applied to automobiles, with all the sales apparatus that is used, at enormous expense, in relation to what is spent on roads.

Mr. Fullerton: That is certainly in the back of my mind, but I have tried to keep it out of the front of my mind in this present case in that I think there are two basic points involved here. First of all, the tax on advertising is an anti-inflationary device and secondly, a tax on certain advertising may be desirable because it is bad for our society. There is a spill-over clearly between the two.

Mr. Joyal: I take it from your basic premise, Mr. Fullerton, that what advertising does is create a greater demand-pull on prices?

Mr. Fullerton: Yes.

Mr. Joyal: But what of the effect on prices in the cost push?

Mr. Fullerton: You can stir up all kinds of arguments among economists about the difference between a demand-pull inflation and a cost-push, but both of them end up in the same place, with more cash around than there are goods and services available to buy. In fact, you cannot differentiate beaween them all that much. Inflation is inflation, whether it comes from an over-expansion of money supply being passed out into the spending stream or else from salaries and wages going up and thereby shoving up the cost of products. I think the tax should be applicable in both cases.

Mr. Joyal: You are only suggesting that all a restriction in advertising by a tax policy would do is to lessen the demand-pull?

Mr. Fullerton: Yes.

Mr. Joyal: Would it not have the contrary effect, however, in the industry in which this committee is mostly concerned, that of food, of creating a higher unit-cost and therefore not resulting, as far as the consumer is concerned, in any advantage on prices?

Mr. Fullerton: Some prices might climb, some might fall, but the amount of the gain in prices would be much smaller than the Government's tax receipts from it. So the public in fact does gain.

Mr. Joyal: I take it from the example you quoted about cigarette advertising and the other example about breakfast food, that you do not like that

industry of advertising, I gather. You said as much "I do not like this advertising because it distorts their value, it is not performing a useful social function".

Mr. FULLERTON: Some of it.

Mr. JOYAL: You mentioned breakfast food, that this distorts our social functions. The figures were brought to this committee—supposing you take breakfast food as the particular whipping boy in the advertising scheme—the total advertising cost given to us was $50 million a year whereas the total food bill was $2 billion a year. You are talking about one element that represents one-half of one per cent of our consuming food dollar.

Mr. FULLERTON: I could talk about breakfast food, soap, perfume, going on down the line. Soap is possibly a better example. The price of soap is doubled because of advertising. I was told by Bert Loeb, whom you know and who appeared here, that they can package soap and place it on the counter, but if Tide or any other advertised product is placed beside it, at twice the price—it is the same product exactly—the people will buy Tide because in effect they have been brain washed—*lavage de cerveau.*

Mr. JOYAL: Would not consumer education provide the same results?

Mr. FULLERTON: Then you are back on the social consequences of spending. You can spend a million dollars on consumer education and everyone screams that the Government is moving into this brain washing business. But if the soap people spend $50 million pushing particular soap packages that is perfectly all right, because that is genuine free enterprise at work. As far as I am concerned, the whole thing is absolutely shocking. This $50 million is free enterprise at work, but the $1 million on consumer education would be considered as just damned Government waste.

Mr. JOYAL: You have got some strong views, I can see.

Co-Chairman Senator CROLL: If you did not spend more than a million dollars on consumer education, it would be Government waste. You would have to spend $50 million to get education across—and it may be worth it.

I have always been under the impression that intelligent and creative advertising does reduce the cost of goods. Is there a point beyond which they go?

Mr. FULLERTON: Absolutely.

Co-Chairman Senator CROLL: What?

Mr. FULLERTON: Soap. Soap prices have gone up and not come down. The cost of manufacturing soap has become stabilized. The processes have been known a long time.

Co-Chairman Senator CROLL: Really, soap is not something I can get excited about, except when I am dirty. It is a tiny item. Let us get into something that has some meaning really.

Co-Chairman Mr. BASFORD: Beer.

Mr. FULLERTON: All right, you have Seagram's V.O. or Crown Royal. That stuff costs practically the same as the cheapest rye whiskey, but by advertising they create a market for it, they build a market. It is a capital expenditure of sorts, and is something the same as soap.

Co-Chairman Senator CROLL: Except that there are not so many drinkers.

Mr. MCCUTCHEON: I can assure you that the morning after, I feel much better following V.O. and Crown Royal.

Mrs. MACINNIS: On the point of no return, I wonder whether Mr. Fullerton would comment on this point that the chairman has raised, as to where advertising becomes harmful or unjustifiable. Is it precisely at the point where manufacturers go out to create demand for a whole lot of unnecessary things? We hear about women being blamed for buying where there are premiums along a whole lot of lines. I have talked with many women and they resent their

children being pressured into getting them to buy stuff, because they have it poured on them by television. If that were not so, they would not be pressured at all. Would that be the place where you could draw the line?

Mr. FULLERTON: The problem is to find the line. My impression is that there is a certain point of no return on standard products, and again I come back to soap, where the demand is built up and there is only so much soap that can be used. Then it becomes a case of trying to grab off an increasingly larger share of a static market, and the expenses pile up. They are battling each other all the time and the cost is paid for by the consumer.

Mrs. MACINNIS: Can a line be drawn?

Mr. FULLERTON: Well, in a broad spectrum, but not a fine line.

Co-Chairman Senator CROLL: But, following Mrs. MacInnis' question then, who is to draw the line? That is what we want to know; who is going to draw that line?

Mrs. MACINNIS: Mr. Fullerton, do you have any notion of where a line could be drawn?

Mr. FULLERTON: I would draw that line so that on one side of it would be the brand name advertising of all kinds and on the other would be the informational advertising. However, there is bound to be a grey area. Some of the advertising from one side would probably spill over into the other, and vice versa. It would be a difficult line to draw.

Mrs. MACINNIS: Is there any place in the world where this proposal has been tried out?

Mr. FULLERTON: None that I know of, but I am certain it has been talked about a lot. However, I cannot find any documentation on it.

Mr. ALLMAND: Mr. Fullerton, let us consider two products which have been mentioned here, cigarettes and cars. All the firms today say that when they have a new product they need to spend a lot of advertising money in the first year in order to get the product off the ground. As a matter of fact, they say that a lot of their advertising is in that first year or two. Now, we have talked about grey areas and where we are going to draw the line. Suppose a national firm, through its research department, has come up with a cigarette that is not going to cause cancer, or they have come up with a car which is absolutely safe, and they want to promote their product, which is, after all, like a new product. What happens in that situation? It seems to me that you would have to say then that we will have to have some body which will determine when the tax will apply to this product and when it will not apply.

In effect, we would be setting up a state body which would decide the matter. They might say, "We will let Chrysler promote their car because that is socially desirable, and we will let Player's promote their cigarette. But we will not let another company," for example, Ford, "promote their product, because that is not socially desirable."

Mr. FULLERTON: No. My reply is first that there are very few products of that kind coming onto the market. There are few important products in any event. In the second place, if they get a product of that kind, they would spend the money on advertising and then pay the tax. You cannot make that kind of exception.

Mr. ALLMAND: There have been things like that, although you say there have not. When Chrysler opened up the field of extended warranties, they spent a lot of money on advertising in promoting their five-year warranty, and a lot of companies have followed since then. It was something they had to tell the customer about, and something that the customer probably wanted.

Again, a line has to be drawn. Of course, you say that they should just pay the tax on a thing of that sort.

Mr. FULLERTON: Yes, that is right.

Co-Chairman Senator CROLL: Does it follow that, if you spend the money for advertising you will get results whether you have a product or not?

Mr. FULLERTON: Probably. Generally, you will, I would say. A good product or a bad product, if it is advertised enough, will sell.

Co-Chairman Senator CROLL: Let me put it this way, then: no one has any more money in the tobacco business than the American Tobacco Company, and yet they are not number one in the field at the present time. However, no one spends more money than they do.

Mr. FULLERTON: I would fire my agency, if I were that company. I would get somebody else.

Co-Chairman Senator CROLL: I imagine they have fired enough agencies. They are still not number one.

Mr. FULLERTON: Well—

Co-Chairman Senator CROLL: And that happened to Coca Cola as well. They are certainly in the same position. They spend enough on advertising and yet they are no longer number one.

Mr. FULLERTON: Is that correct?

Co-Chairman Senator CROLL: That is in the book. I looked it up last night.

Co-Chairman Mr. BASFORD: There were some comments in the press on Friday, Mr. Fullerton, about your proposal. There was one comment from Mr. A. E. Ross, Vice-President of the Association of Canadian Advertisers and Advertising Manager of Goodyear Tire and Rubber Company of Canada Limited, who, in sort of a "damn the torpedoes" speech, said that such a tax on advertising would fail to reduce the volume of Canadian advertisement.

If I might read his whole statement, it is as follows:

> We are not going to go out of business or cut advertising if taxes are raised...
>
> Being good citizens, we would pay the advertising taxes, and being businessmen, we would add the expense to our cost of doing business...The consumer would pay in the long run and the inflation spiral would continue.

That is to say, if they had to pay taxes, they would just add that to the price of the goods.

Mr. FULLERTON: Well, can taxes be passed on or not? Sometimes taxes can be passed on; sometimes they cannot. Perhaps a tire manufacturer who cuts down on his advertising can bring the price of his tires down, thereby establishing the price of all tires. I mean to say that these brand products are competitive with each other on a price basis so that if somebody tries to add on the tax, and bumps his price out of line, he loses business.

Co-Chairman Mr. BASFORD: All right. You are putting this forward as an anti-inflationary measure. You are putting it forward as a cyclical measure whereby at one time taxes will be on and at another time they will be off.

Mr. FULLERTON: Yes.

Co-Chairman Mr. BASFORD: I take it your proposal is that the tax rate will have to be a fairly high one designed not to raise revenue, really, but to prevent advertising. It will be a prohibitive tax or a penalizing tax.

Mr. FULLERTON: The proper level of the tax could only be found after study, and I suspect that there would be some trial and error. Maybe it is 10 per cent, maybe it is 20 per cent, perhaps it is 25 per cent. I do not know. However, you would experiment with it.

Co-Chairman Mr. BASFORD: What is the effect of the regulations that were passed two budgets ago with regard to advertising in American magazines? What has that had to do with the level of advertising, do you know?

Mr. FULLERTON: Well, my impression is that it stepped up advertising in *Time* and *Reader's Digest*, and in *Weekend* Magazine and similar papers and in some magazines in Canada, but it has definitely cut down on the split runs, the specially tailor-made American issues for sale in Canada.

Co-Chairman Mr. BASFORD: Has it affected total advertising budgets?

Mr. FULLERTON: After all, it is not aimed at controlling the total, it is aimed at steering it towards publications in Canada. I doubt if it has cut down the total, but it has certainly cut the spending in the States.

Co-Chairman Mr. BASFORD: I could not find what I was looking for when I was asking some questions before, but to go back to what Mrs. MacInnis was saying—your example about soap seemed to confirm what I was suggesting when you said that people could only use so much soap and the advertising was to determine whether people should use Lux or Oxydol.

Mr. FULLERTON: That is true of certain products, yes.

Co-Chairman Mr. BASFORD: It brings into question the fact whether advertising increases consumption.

Mr. FULLERTON: I would say it definitely does in some static markets, or in ones that grow as the population grows, but I am certainly convinced that people who see those beer ads in the middle of the football game and have time enough to go out and open a bottle of beer are influenced to do so. I am convinced that does put up the beer consumption in Canada.

Co-Chairman Mr. BASFORD: I have never found I needed advertising to get me to drink beer.

Mr. FULLERTON: This also applies to smoking. A person lights up a cigarette in an advertisement and there is an instinctive reaction for people to grab one and light up too.

Mr. JOYAL: Weren't people smoking before that? And people have been drinking wine since biblical days and there was no advertising then.

Co-Chairman Mr. BASFORD: I presume there is no relationship between the two points you make in your statement, but I am rather confused. The second point is aimed at a tax on advertising as an anti-inflationary measure. In the first point it appears to me that you are arguing for an end to tight money. Have I oversimplified that?

Mr. FULLERTON: There are two separate points here. The point on the capital market is simply a comment that inflation not only steps up consumer prices through increased demand, but the efforts of Government to slow inflation down, or the tightening of credit through the growth of capital expenditures, also pushes up costs. These are two entirely separate points.

Co-Chairman Senator CROLL: Dr. McGrand.

Senator MCGRAND: This question may be rather pointless, but in discussing advertising let us take the following situation: Many people go to shopping centres and other places because they see bargains advertised for sale. If you add these up it will amount to a fair share of the consumer's dollar. Is there any way you could compare the money saved by people in buying these articles that are cheap—these bargains they buy through advertising—with the money spent on over-advertising? Is there any way you can make a comparison? After all, advertising does save the consumer dollar when they are interested in bargains.

During this strike against the shopping centres many housewives broke their pledge and went to the stores when they saw something advertised that was a bargain.

Mr. FULLERTON: Well, my approach is certainly that that type of advertising or the chain store ads or Eaton's ads are the kind of services to the consumer that should not be taxed. The thrust of my attack is on the brand name advertising, and the two are not the same at all in my view.

Co-Chairman Mr. BASFORD: To go back to your first point, would you agree—most people argue that tight money is an effective anti-inflationary mechanism?

Mr. FULLERTON: Yes.

Co-Chairman Mr. BASFORD: Do I take it that point 1 questions that?

Mr. FULLERTON: No; my purpose in bringing that up is twofold. First, tight money does raise prices, but I believe in it and I support it. Perhaps I ought to emphasize that. My second point is a broader one and that is that our capital market is being threatened by inflation so that the goals of the committee to bring prices down do not only serve to help the consumer but they also serve to help save our capital market.

Co-Chairman Mr. BASFORD: I don't quite follow you, I am sorry. There is a sentence in here—"You are perhaps not quite so conscious of the fact that monetary policy designed to slow down inflation also damages the bond investor's assets."

Mr. FULLERTON: That is right.

Co-Chairman Mr. BASFORD: If we take anti-inflationary measures then, which you say we should do, at the same time we are destroying the bond investor's assets and, I take it, destroying the bond market.

Mr. FULLERTON: No, the main effect of inflation on the bond market is the fall in the purchasing power of the bond owner's capital. There is also a secondary effect. As soon as there is action taken to slow down expansion of the money supply, and to achieve a tightening of credit, bond prices are adversely affected and that is the secondary impact. The parallel is perhaps that taxes are designed to slow down inflation, but they step up prices too. It is part of the price we have to pay for trying to control inflation.

Co-Chairman Mr. BASFORD: Are there any ways of avoiding this?

Mr. FULLERTON: Perhaps more taxes would mean easier money and lesser needs—perhaps I can put it better this way; by stepping up your taxes you may reduce the need for tighter money by slowing down your inflationary price increases.

Co-Chairman Mr. BASFORD: Well, I take it from that last comment that you would lean towards those people who have told us we have relied far too much on monetary policy.

Mr. FULLERTON: That is correct. That is certainly the implication in the speeches of Mr. Rasminsky—both his speech in Rome and his appearance here.

Co-Chairman Mr. BASFORD: In view of your comments on the effect on the bond market, as I understand it this latest government issue of bonds has been overwhelmingly successful.

Mr. FULLERTON: Those are not properly bonds. Those are Canada Savings Bonds, and they are much the same as a bank deposit. It does not fall into the category of a long-term bond.

Mr. McCUTCHEON: May I ask a supplementary?

Co-Chairman Senator CROLL: Yes.

Mr. McCUTCHEON: I think it is by quite a long stretch of the imagination supplementary to what Mr. Basford was asking.

Again, may I refer to your article, this one which was in *Canadian Business*, and I would like to read this sentence to you and get your comments:

> One large trust company is reportedly considering raising the common stock holdings in the pension fund portfolios it manages from 15 per cent to 50 per cent—in spite of the recent sharp drop in stock prices (or perhaps encouraged by it!)

Mr. FULLERTON: That is right.

Mr. MCCUTCHEON: This is not a matter for this committee, but insurance companies and pension funds, I have been led to believe, are curtailed in the ratio of investment stocks in their portfolio. Do you feel that the trust companies, by having the ability to go to such a high percent, have an effect on the bond market?

Mr. FULLERTON: This has been fell over the last couple of years in Canada to a sharply increasing degree. There is a steady swing from bonds to common stocks, and buying land under buildings instead of the buying of mortgages on the buildings. That form of inflation protection is going on all the time, and as a result our bond market has been sick, and I suspect it will be sicker. This is too bad—I make my bread and butter out of the bond market—but it is my view.

Mr. MCCUTCHEON: Do you feel that pension funds, for example, should be funded by 50 per cent common stock? By doing this very thing, are we not leaving ourselves open to a terrible thing that happened in, say, 1929 to one of our life companies by this type of investment program?

Mr. FULLERTON: Well, I do not believe so, as I cannot see what happened in 1933 ever occurring again. I do not believe it is possible; I believe we have solved the problem of massive depression. The problem of our time is inflation, and from now on in it will be inflation; it is not bad slumps. So the person who has bought stocks—the person who even bought stocks in 1929, who bought a balanced package of stocks at that time—has gained; the person who bought them in 1939 has gained; the person who bought them in 1949 has gained; and the person who bought them in 1959 has gained—compared to buying bonds.

Mr. MCCUTCHEON: You have not answered the question.

Mr. FULLERTON: Well, the question, as I understand it, was: Should some effort be made to control the proportion that the big institutional investor can place in common stock? And my answer is: No, because then individuals will stop buying insurance policies. They will start buying mutual funds, because there is strong pressure all the time to protect ourselves against inflation, and it is mounting all the time.

Senator CARTER: To follow along the line of argument of Mr. McCutcheon, you go on in that same paragraph, further down, and state:

> Individuals increasingly prefer stocks and mutual funds to bonds,

and then you say:

> although their shift is a product of the dividend tax credit and prospects of capital gain as much as fear of inflation.

So inflation is not the only incentive?

Mr. FULLERTON: No, that is quite correct.

Senator CARTER: When you start dividing it up between these three, where do you fit—the incentive of the tax credit, the incentive of prospects of capital gain?

Mr. FULLERTON: It is a blend of all three. It depends upon the person's own fears, prospects, tax bracket, and everything else. If it is a person in an upper tax bracket, then the tax credit becomes a key factor. An older person, say, who is not bothering about inflation because he is wealthy now, to him the tax credit is important. For someone else, it is the fear of inflation that dominates his mind. You cannot generalize.

Senator CARTER: It is very difficult to sort it out and say, "This is because of inflation"?

Mr. FULLERTON: Exactly.

Co-Chairman Senator CROLL: What is causing this great rush for American equities as against our own equities? This has happened in the last couple of months.

Mr. FULLERTON: If I could turn to a column I wrote on that, I could perhaps summarize the points I made. First of all, there is performance. The blue chip stocks in Canada have done badly in the last decade compared to American stocks. I am speaking here of Steel of Canada, Bell Telephone, and so on. They have all done badly as a group.

Co-Chairman Senator CROLL: You are not telling me anything new. Go ahead, talk.

Mr. FULLERTON: The second point is the depth of activity of the market in the States. It is a bigger and broader market; you can trade in it better. The market in Canada is thin and narrow, and a person or institution that buys stocks is locked in. He cannot get out easily once he buys his stocks. He can in the States.

The price-earnings ratios are better in the States, and that is a surprising fact. Canadian prices have been forced up by our own dividend tax credit. There is a lack of growth industries in Canada. We do not have the data processing and the space age industries. People are now buying growth stocks.

Research on stocks is better in the States than it is in Canada. There is no question about that. People are afraid of our dollar, and are going south. There is a feeling that the American exchanges are regulated better than ours are. The Canadian stock exchanges are a blend of the ordinary stock market and the wild-eyed speculative type of thing. All of these things add up.

Co-Chairman Senator CROLL: But these things have been that way ever since I can remember. Is there not something that will make them change and get people into our own equities?

Mr. FULLERTON: My column which followed touched on that. Perhaps it would be easier if I passed you a copy.

Mrs. MACINNIS: I would like to bring you back to this dilemma you mentioned of how the bond market being the way it is, and how tight money is necessary, in your view, in the present inflationary situation, prices ot the consumer are still rising. What about that dilemma? How does one get out of it?

Mr. FULLERTON: Well, money is tight because capital spending has gone up very sharply in Canada, There has been an expansion of our money supply, but capital expenditures have just soared. Now, to try and slow that down through the market processes involves some rationing of capital through rising interest rates. That is a penalty of inflation. It is a cost of inflation, and it cannot be escaped, and I do not believe it ought to be escaped. There are certain socially desirable capital projects that might be subsidized by special low interest rates. I am thinking of housing, for instance. If the government would subsidize private housing by paying half the interest rate charges or something like that—well, if you wanted to do that, that would be one way.

Mrs. MACINNIS: Is the reason for this the fact—and this is what I am trying to get at—that inflation bears in different degrees on different income groups. In other words, obviously the most vulnerable ones are the low income groups. Is the way in which you attempt to get out of this dilemma the tiding over and helping the lot at the bottom on which inflation bears most heavily, and on which high prices bear most heavily? You have aroused my curiosity. You have said that here is a dilemma; we have tight money, and tight money is necessary, but we also have higher prices. Obviously, the people who get hurt the most are the

ones at the bottom, the ones who have the least in the way of savings and income to go on with. Are you proposing we should start helping that lot, or what?

Mr. FULLERTON: Well, inflation certainly bites differently on different income groups, but I would say that the people at the bottom sometimes may gain. It is not entirely as automatic as you suggest. For instance, the strongest lobby of all in parliament is the old age pension lobby.

Mrs. MACINNIS: Did you say the strongest or the most essential?

Mr. FULLERTON: Well, it has done all right, I would say, in the past decade. But, I am saying that each group has tended to find some form of protection against inflation, but not all in the same degree. The unionized man who is out on strike for an increase of 30 per cent, or whatever it is, is trying to look after himself. The salaried man gets his salary increased, and the wealthy man stops buying bonds and buys stocks. You cannot simply say that it is the people at the bottom who are necessarily the worst off. Perhaps it is the people who are just above the bottom who are hit the hardest. You have to approach this pragmatically.

Co-Chairman Mr. BASFORD: Who was the official of the Canadian Association of Broadcasters who made the statement you mentioned?

Mr. FULLERTON: It was Mr. Allard, the executive vice-president.

Co-Chairman Senator CROLL: We expected that.

Co-Chairman Mr. BASFORD: You would think that someone in the communications industry could make a statement that was not so obviously self-interested. You quote Mr. Rasminsky in these words:

> But the experience of many countries suggests that monetary and fiscal policies need to be supported by some technique which mobilizes the force of public opinion behind non-inflationary behaviour by those who are in a position to deploy strong market power.

You quote all that with approval, and I take it that your text on advertising is meant to be one of those other non-monetary and fiscal policies?

Mr. FULLERTON: That is right.

Co-Chairman Mr. BASFORD: Could I ask you whether you think a guidelines policy would also serve the same purpose?

Mr. FULLERTON: Do you mean if the Minister of Finance would stand up in parliament and say: "Our guideline on price increases is 5 per cent per annum", or—

Co-Chairman Mr. BASFORD: Well—

Mr. FULLERTON: Do you mean on advertising or—

Co-Chairman Mr. BASFORD: No, on wages and profits. It was suggested by Professor Neufeld that the Economic Council of Canada might be the more appropriate body, having more public acceptance or public prestige than the Minister of Finance, to enunciate on what would be proper wage and price levels for the coming year. Do you think that that would be effective or useful?

Mr. FULLERTON: Well, you had better ask John Deutsch about that one. My impression is that it is too late in Canada for this; that the time is past. It has served some purpose. It has slowed down the steel companies, but when you get into the kind of strike that occurred yesterday in which the air line mechanics are asking, I understand, for a wage increase of 20 per cent plus fringe benefits of 7 per cent, and the government is offering 12 per cent, compared to the strike in the States which was settled after a period of five months with a gain of between 5 and 6 per cent, then my impression is that the guidelines battle in Canada has been pretty well lost.

Co-Chairman Mr. BASFORD: Maybe for the present, but do you not think that this would be useful as a long term policy?

Mr. FULLERTON: If it is backed properly; if you can canalize opinions on it; if you can get people prepared to accept it.

Co-Chairman Mr. BASFORD: To go back, your tax on advertising is put forward as an anti-inflationary measure. I have received a great many views from economists and businessmen to the effect that we do not need anti-inflationary measures but anti-depression measures, and that if we do not look two or three months ahead we are going to be in very bad shape.

Mr. FULLERTON: In my view they are wrong.

Mr. JOYAL: You see a continuing—

Mr. FULLERTON: A continuing inflationary pressure, yes, I do.

Mr. JOYAL: And a continuing expansion?

Mr. FULLERTON: Perhaps slowing down, perhaps not, but the total effect is still inflationary.

Co-Chairman Senator CROLL: What do you suggest instead of the guidelines which you say won't work, suggested by Mr. Basford?

Mr. FULLERTON: It needs a blend of everything, monetary policy, fiscal policy. I would certainly try guidelines out after this present surge of wage increases is over. The efforts of the housewives is the kind of thing that I suspect Mr. Rasminsky is speaking of here. It is a blend of all kinds of things. You try everything.

Co-Chairman Mr. BASFORD: Would not one approach be a limitation on advertising rather than a tax on it?

Mr. FULLERTON: That is a little farther from the point I have in mind, and I think is a little difficult to impose. I do not spurn it, certainly, but I think you should stay with your market forces as long as you can. The tax is a market factor, whereas a control is not.

Mr. JOYAL: In one case you are punishing, and in the other controlling. Is that not what Mr. Basford is trying to say? What you want to do is control advertising?

Mr. FULLERTON: By taxing.

Mr. JOYAL: By a fiscal policy. Could you not do it as Mr. Basford suggests, by limiting, like they applied the excess profits taxes during the war, for example?

Mr. FULLERTON: It is possible; but you still encounter the problems of drawing lines between the kind you allow and the kind you control.

Mr. JOYAL: But whether it is advertising or promotion, and all those things which have been explained to the committee for a long time, would it not have the tendency simply to drive what had been an advertising expenditure through media like radio and television and the newspaper, into ventures like trips to Hawaii, and so on? How would you control that? Would you tax a trip to Hawaii, a raggedy doll, or a Green Giant baby doll, or something? It is all advertising cost.

Mr. FULLERTON: Governments are cracking down more on expense accounts all the time; and control over trips or dolls is not an insuperable problem, it seems to me.

Co-Chairman Mr. BASFORD: Could I ask you whether you favour this because advertising is an ingredient of cost or an ingredient of creating a demand?

Mr. FULLERTON: The second point.

Co-Chairman Mr. BASFORD: The second?

Mr. FULLERTON: Gasoline on the fire.

Co-Chairman Mr. BASFORD: You don't think it is important to look at advertising because it is an ingredient of cost?

Mr. FULLERTON: That is a second aspect. Personally I suspect it is very important.

Co-Chairman Mr. BASFORD: We have all sorts of witnesses who document the other way, that the more you spend on advertising the cheaper your goods are. I find it a little hard to accept too, at this point.

Mr. MCCUTCHEON: Mr. Chairman, will you entertain a motion to adjourn?

Co-Chairman Senator CROLL: Does anyone else with to ask a question? Mr. Fullerton, you have certainly placed before us an imaginative and interesting idea for discussion, and we discussed it. I suppose our is the first public body that ever discussed it.

Mr. FULLERTON: Possibly.

Co-Chairman Senator CROLL: To that extent we thank you, because we do not often get new ideas presented to us; we are more often plagued with older ideas. We appreciate your taking the time to come here and for preparing your presentation.

The committee adjourned.

EXHIBIT "A"

IS THE BOND MARKET IN JEOPARDY?

by Douglas Fullerton

Declining interest in the bond market is not a new phenomenon. But what has brought about the recent sharp decline? What is there on the horizon that might serve to counter the trend or reverse it?

The subject of this article might have been an informed guess by the author on the course of prices and yields over the next year or so, based on an assessment of the various forces in the economy and elsewhere which are likely to have market consequences. This aspect of forecasting will not be neglected, but greater emphasis will be devoted to a more fundamental examination of the bond market in Canada, the troubles which have beset it of late, and the impact of recent events on the continued willingness of investors to buy and hold long-term bonds. The thesis, in fact, is that the bond market as we have known it for the past few decades is in some peril. Those who formulate government fiscal policy can no longer afford to disregard the impact of their actions on savers and investors; this country can stand a good deal of mishandling by those who run it, but it will be in deep trouble if its capital market breaks down.

The bond market is at the core of the capital market where the major allocations of savings to investment projects are carried out. This is not to denigrate the role of the stock market, which certainly has its place in the system, but it is in the bond market that governments raise money to meet their deficits and capital expenditures, and business finances much of its own expansion and growth. Apart from the federal government, most issuers sell bonds of the long-term variety, that is, bonds maturing in 15 to 20 years or longer (A related source of funds for the construction industry is the mortgage market, and its problems are similar in nature to if not precisely identical with those in the bond market.) Relatively little "new" money for capital financing comes from the issuing of common stocks, and when the stock market is in trouble even this small amount shrinks close to zero, throwing an even greater load on the bond and the mortgage markets.

As a bond watcher of 20 years standing, and an active market participant for nearly ten, I have seldom seen a more depressing period in the market. This does not necessarily mean that there will be a further decline in bond prices over the near future, because they are now at or close to their all time lows. In early September, in fact, prices picked up following anti-inflation speeches by President Johnson and Canada's Finance Minister Mitchell Sharp. What is disturbing is the dwindling lack of enthusiasm for bonds as an investment, even at current level, and the inability of some borrowers to raise the money they need, almost at any price.

Decline in the fifties

To understand how we arrived at the present situation one must go back a number of years. The declining interest in bonds is not a new phenomenon, but appeared to begin in the early fifties. Many individual savers who had bought Victory bonds during World War II, and who had gained the impression that the government would support these 3% bonds at par or above indefinitely, became somewhat disillusioned when monetary policy first began to bite in earnest in 1951, and the Victory 3's of 1966 fell from par to below 95. Canada Savings Bonds provided an increasingly attractive alternative for them. Simultaneously the principal institutional investors placed a steadily increasing proportion of

their funds in mortgages; for example, between 1950 and 1958, the holdings of 12 large life companies showed the following dramatic changes:

	1950	1958
	(millions of dollars)	
Canada bonds	$1,008	$ 452
Provincials and Municipals	429	588
Corporates	763	1,481
Mortgages	739	2,336

By early 1958 Canada's and provincials were on a 4 per cent to 5 per cent basis compared to 3 per cent to 4 per cent in 1950. Then came the Conversion Loan and its aftermath, and yields rose again to new levels. For many individual investors the 17 point decline in the conversion 4½'s of 1983 was a final straw, and the switch to common stocks, mutual funds or savings bonds intensified. Institutional investors were not happy either about the Conversion Loan, and with mortgage demand strongly sustained, the proportion of bonds in their portfolios continued to decline.

Conditions stabilized somewhat in the 1962-1964 period. Monetary and fiscal policy meshed harmoniously, and the economy expanded steadily without much stress. Provincial and municipal borrowing continued to mount, but a great deal of pressure was taken off the market by the very sharp rise in the volume of new issues sold in the United States. New bond issues payable in other currencies (almost all U.S. dollars), net of retirements, was $1,715 million in the 1962-to-1964 period compared to only $372 million in 1959-1961.

In January 1965 the prices of long-term bonds began a decline which carried on with minor interruptions until the end of August 1966. Long Canada yields rose in the period from about 5 per cent to 6 per cent, Ontario's from 5.25 per cent to 6.25 per cent and Quebec's from about 5.55 per cent to 6.60 per cent, although there was an improvement in early September which reduced these yield levels slightly. The net fall in bond prices, however, was of the order of 9 to 10 points. What brought about such a sharp decline?

Why the sharp decline?

The first and most obvious reason has been the efforts of monetary authorities in Canada and the United States to curb developing inflationary pressures in the two economies. In Canada the need for borrowed capital continued to rise, and the pressure on bond interest rates was accentuated by the construction boom. This past summer money market conditions in the United States were even more stringent than in Canada, and prices of United States long-term issues fell more than equivalent Canadian issues. In addition, the United States balance of payments difficulties (whether real or imaginary—the consequences are the same) made United States buyers less enthusiastic about buying Canadian issues. This has been particularly noticeable in recent months; net Canadian borrowing in New York in the first quarter of 1966 was very heavy, partly because of deferrals from the fourth quarter of 1965 following a government directive, but has since fallen off appreciably.

It is clear that, regardless of the attitude of bond buyers, 1966 could not have been other than a year in which bond prices fell sharply. Yet to this observer at least, it appears that this past year has provided evidence of new and deep-rooted concerns on the part of Canadian investors that are serious enough to endanger the future of the market itself. It is not quite correct to say that the buyers are collectively "on strike," because as each new higher level of rates appears some buying does come into the market, but the highest rates in history no longer appear to provide the automatic pull that they would have in earlier years. Buyers are more prone to question the future level of interest rates and

prices, but show much less confidence in the recurrence of a recession that will bring with it a return of lower levels of interest rates and higher bond prices.

These concerns tend to express themselves more in changes in the shape of investment portfolios than in a public outcry about the dangers for the capital market inherent in current wage and price trends and government policies. During the past year or two shifts in investment policies have become particularly evident. Even the most conservative portfolio managers are stepping up the proportion of common stocks in funds under their care. One large trust company is reportedly considering raising the common stock holdings in the pension fund portfolios it manages from 15 per cent to 50 per cent—in spite of the recent sharp drop in stock prices (or perhaps encouraged by it!) Insurance companies are seldom content now to take straight mortgages on new shopping centers and office buildings but want a piece of the equity—and some even prefer to buy the land under the proposed building as a hedge against future inflation. Individuals increasingly prefer stocks and mutual funds to bonds, although their shift is a product of the dividend tax credit and prospects of capital gain as much as fear of inflation. One could go on to document this shift in attitudes from bonds with more precision, but what concerns us more is to try to isolate the reasons for it and to look for developments on the horizon that might give some hope for a reversal of the trend.

Every bond buyer has his own reasons for a lack of enthusiasm for bonds at these levels, but a sampling of opinion would probably include the following:

Fear of inflation. This has been accentuated in 1965-66 by (a) the unprecedented length of the boom, and growing belief in the ability of governments to solve the problem of recession; (b) the simultaneous view that governments, having sensed the popularity of massive spending programs, will not change their habits—whether inflation occurs or not; (c) the wage drive in 1966, with the government's apparent acceptance of 30 per cent over two years as the norm, will clearly move price up further. The 1961-65 rise in prices of 1 per cent to 2 per cent was a tolerable decline in the value of money; the prospective 4 per cent to 5 per cent or more is not; (d) the belief that the bond holder is the whipping boy in any efforts by the authorities to combat inflation; (e) the likelihood of continuing international tension and limited wars such as in Viet Nam.

Fear of international crisis. The growing problem of international liquidity, the loss of gold by the United States and the recurring difficulties of sterling all suggest that we are moving closer to an international financial crisis. All such crises in the past have produced higher interest rates and lower bond prices (few expect a crisis to be followed by a major depression and very easy money).

The relative past performance of stocks and bonds. In 15 years the bond buyer has seen the level of interest rates double and bond prices have fallen accordingly. Common stock prices, in spite of periodic breaks—and even the latest one—have in the same period tripled in value. Those who cautiously have continued to invest substantial amounts in bonds over the years are tired defending their actions in the face of the successes scored by the more daring portfolio managers. It is true that the decision-making power in the managment of portfolios still resides to a surprising extent in the hands of those scarred in some way by the depression. However, they are steadily being replaced by younger managers, weaned on a diet of more or less permanent boom, and much more aggressive in their policies. The performance of bonds in recent years has tended to strengthen "new area" attitudes, and hasten the move away from bonds.

Long-term bonds

Along with this swing in investor attitudes there have been some changes in savings and institutional patterns recently that will affect the demand for long-term bonds. One important change was the introduction of the Canada and

Quebec Pension Plans; not only has this had the immediate effect of by-passing the capital market to some extent, by channelling contributions directly to provincial and municipal borrowers, but it appears to have effected a significant reduction in the cash flow of institutions and pension funds which might be available for bond investment. This may be only temporary (the introduction of universal pension plans in Sweden and elsewhere suggests that overall savings are not damaged by these schemes) but recent union demands appear to indicate the lessening appeal to members of pensions as a fringe benefit. The proportion of militant younger members is increasing in the unions, and many of them are quite ready to rely on governments to provide pensions when they retire at some distant point in the future, preferring more cash now. This of course represents a major shift back from the union goals during the past decade, and may well produce a levelling off if not a fall in the flow of pension plan contributions. This will not help the bond market, although provincial and municipal pension funds will no doubt continue to provide an important market for their own bonds.

This view of the prospects for the long-term market is hardly an encouraging one, and may perhaps play up the bearish factors excessively. What is there on the horizon that might serve to counter the trend or even reverse it? The first important argument might be that United States and Canadian governments have finally come to realize that by September 1966 they had pushed monetary policy about as far as it could go, and that inflation had to be tackled with fiscal as well as with monetary policy. The speeches by President Johnson and Finance Minister Sharp on September 8th gave a clear indication of this. A second point is that some of the steam may well be out of the boom—if the stock market has any value as a leading indicator—and if this proves to be the case the demands on the capital market should fade and rates may recover. Both these factors no doubt contributed to the market recovery in the few days following the Johnson and Sharp statements.

There are also technical reasons why a short-term recovery might be expected in the early fall. The speed and extent of the drop in the United States bond market—four to five points in a month—almost inevitably would produce some reaction. Markets often swing too far and then bounce back. In Canada the failure of the new Canada bond issue in August necessitated substantial support by the Bank of Canada, and the Bank added $144 million to its Canada bond holdings in the week ending September 7th. Dealers found themselves in an oversold position, and when the United States market turned around, followed by the announcements of government plans to curtail inflation, they scrambled to protect themselves and pushed the market up quickly.

Whether the early September recovery can be maintained will depend primarily on the performance of the U.S. and Canadian economies, and on the extent to which governments are prepared to act to dampen down inflationary pressures. The buyers remain somewhat sceptical, and will be watching economic indicators and governmental anti-inflationary measures with great interest. The extent to which the pace of inflation slows or accelerates will not only determine short-run movements in bond prices, but may in fact determine whether a long-term bond market can continue to exist in Canada. If the authorities fail in their efforts, we may well find ourselves following the post-war patterns established in Europe—a more or less permanently high level of interest rates and the bulk of capital financing carried out on an equity or short-term basis. But it we do lose our long-term market, the country will be the poorer for it.

EXHIBIT "B"

A TAX ON ADS TO FIGHT INFLATION?

by Douglas Fullerton

Mr. Fullerton is the well-known financial consultant and bond expert of Fullerton, Mackenzie and Associates, Ottawa.

Few today will dispute advertising's claim that it has been an essential element in the growth of the modern capitalistic system. People tend to buy the goods and services that advertisers tell them to.

For this very reason, advertising would appear to provide a unique instrument for slowing consumption in an overloaded, inflated economy. When prices mount, why should not taxes be applied that cut down the volume of advertising, and in this way reduce consumer spending? When pressures ease, the taxes could be reduced or removed.

A tax on advertising is not a new idea, although it seldom seems to have been conceived as a counter-cyclical weapon. The main arguments for a tax have been economic, but with moral overtones—that advertising is wasteful, adds to the costs of production (particularly packaging), persuades people to buy things they don't really want or need, with money they don't have but can borrow, has too much influence on the communications media, favours private spending over more desirable collective social wants.

There are counter-arguments—advertising has made possible mass production and standardization, which have contributed to lowering costs, it has promoted higher standards of quality and design, it has made possible large scale, low-cost operations of the press and other media, it is cheaper than any form of selling which would replace it, and so on.

Whichever side one is on, it is enough to say that advertising is here to stay because it is effective, and society is enormously influenced by it for good or ill.

Food, Drug Gimmicks

Despite a reluctance to take sides on this argument I do feel strongly that advertising has a lot to answer for in its impact on two main areas of consumption—food and drugs.

The present housewives' revolt against supermarket prices is really a protest against their own weakness in accepting the advertisers' slogans and enticements without challenge. They have been conned into paying excessive prices for packaging, for pre-cooked foods, for nationally advertised brands, for trading stamps, for free dish towels in soap cartons.

How much these gimmicks have raised prices was shown dramatically in this paper on Oct. 8, when it was demonstrated that a careful shopper could buy $28 worth of groceries for $15 by comparing labels and prices, by choosing house rather than nationally advertised brands, and by buying larger bulk amounts rather than smaller quantities in glamorous containers.

As for drugs, the situation is even worse. Sales promotion costs of drugs account for about 29 per cent of the selling price (according to the Hall Commission). And explain why 100 tablets of simple aspirin which may cost less than one cent to make can be retailed for as much as $1 or more.

However, when one considers how taxes have been used to curtail or spur capital investment, and how taxes on consumption have been similarly used to restrain or encourage the sales of various products, it is rather odd that advertising has been left unscathed over the years.

A Cost of Production

One reason may be that it is now accepted as a cost of production, and taxes on it would raise final selling prices. All such taxes are regarded as less desirable than income, sales or excise taxes.

Another reason may be that a proposed tax on advertising would not receive enthusiastic support from any newspaper, magazine or private radio or TV stations—whatever their politics.

Most people or institutions define a "bad" tax as one which hurts them, and a "good" tax as one which bites someone else. Reduced advertising would certainly cut revenues of all the media and the politicians pay great heed to what the press and radio and TV have to say or avoid saying.

I'm not persuaded that the arguments against an advertising tax have validity in a period when we are under the inflationary gun. Therefore, in shaping his forthcoming baby budget, Mr. Sharp should have a good hard look at the merits of taxing advertising.

It could be done in two ways—by imposing a special tax on advertising expenditures of say 20 per cent, or by denying corporations the right to deduct advertising expenditures (or a proportion thereof) as a pre-tax expense. The latter precedent has been used for nationalist reasons—Canadian advertising expenditures in American magazines are not allowed as a deduction for tax purposes—so why not use it for much more rational anti-inflationary purposes?

What Is It?

There would of course be problems in defining "advertising" for tax purposes. I'd like to see a fairly comprehensive definition, including advertising expenditures in the press, on radio, TV and on direct mail; costs of public relations departments; cost of gimmicks used for advertising purposes, including "free" giveaways, "tiger-in-the-tank" programs, coupons and stamps.

Possible exclusions might include want-ads and expenditures under a certain minimum where costs of collection would be greater than revenue. However, such deductions should not have much effect on either the principle or the impact of the proposal above.

To sum up, a tax on advertising could play an important role in combatting inflation by reducing incentives to consumers, and could reduce prices appreciably in certain commodities such as food and drugs. Mr. Sharp, over to you!

First Session—Twenty-seventh Parliament

1966

PROCEEDINGS OF THE SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON

CONSUMER CREDIT

(PRICES)

No. 19

THURSDAY, NOVEMBER 17, 1966

LIBRARY
UNIVERSITY OF TORONTO

JOINT CHAIRMEN

The Honourable Senator David A. Croll

and

Mr. Ron Basford, M.P.

WITNESSES:

Dept. of Agriculture: Dr. S. C. Barry, Deputy Minister; Mr. E. P. Grant, Chief of Processed Foods; Mr. S. B. Williams, Assistant Deputy Minister, Production and Marketing; Mr. D. B. Goodwillie, Director, Dairy Products Branch; Dr. C. K. Hetherington, Director, Meat Inspection Division, Health of Animals Branch; Mr. E. Eardley, Director, Fruit and Vegetable Division; Mr. F. E. Payne, Chief, Poultry Products Branch.

National Institute of Economic Research of Sweden: Professor Borje R. V. Kragh, Director.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1966

25225—1

MEMBERS OF THE SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON CONSUMER CREDIT

(PRICES)

For the Senate

Hon. David A. Croll, Chairman

the Honourable Senators

Carter,
Cook,
Croll,
Hastings,
Hollett,
Inman,
McDonald (*Moosomin*),
McGrand,
O'Leary (*Antigonish-Guysborough*),
Thorvaldson,
Urquhart,
Vaillancourt—(12).

For the House of Commons

Mr. Ron Basford, Joint Chairman

Members of the House of Commons

Allmand,
Andras,
Basford,
Cashin,
Choquette,
Clancy,
Codd,
Crossman,
Duquet,
Horner (*Acadia*),
Irvine,
Lachance,
Leblanc (*Laurier*),
Lefebvre,
MacInnis,
Mandziuk,
McCutcheon,
McLelland,
Olson,
Otto,
Ryan,
Scott (*Danforth*),
Smith,
Whelan—(24).

36 members

Quorum 7

SUPPLEMENTARY ORDERS OF REFERENCE

Extract from the Votes and Proceedings of the House of Commons, September 9, 1966:—

"Mr. Sharp, seconded by Miss LaMarsh, moved,—That the Joint Committee of the Senate and House of Commons appointed by this House on March 15, 1966, to enquire into and report upon the problems of consumer credit, be instructed to also enquire into and report upon the trends in the cost of living in Canada and factors which may have contributed to changes in the cost of living in Canada in recent months;

And that a Message be sent to the Senate to acquaint Their Honours thereof and to request the concurrence of that House thereto.

And the question being proposed;

Mr. Pickersgill, seconded by Mr. McIlraith, moved in amendment thereto,—That the motion be amended by striking out the words " by this House on March 15, 1966" where they appear in the second line thereof and by inserting in the motion as the second paragraph the following:

"That the Committee have leave to sit notwithstanding any adjournment of this House;".

And the question being put on the said amendment, it was agreed to.

After debate on the main motion as amended, it was agreed to."

Extract from the Votes and Proceedings of the House of Commons, October 7, 1966:—

By unanimous consent, Mr. Basford, seconded by Mr. Allmand, moved,—That the First and Second Reports of the Special Joint Committee on Consumer Credit and Cost of Living, presented to the House on Friday, April 1 and Thursday, October 6, 1966, be concurred in.

After debate thereon, the question being put on the said motion, it was agreed to.

Accordingly, the said Reports were concurred in and are as follows:

FIRST REPORT

Your Committee recommends that seven (7) of its Members constitute a quorum, provided that both Houses are represented.

SECOND REPORT

Your Committee recommends that the House of Commons section of the said Committee be granted leave to sit while the House is sitting.

LÉON-J. RAYMOND
Clerk of the House of Commons.

Extract from the Minutes of the Proceedings of the Senate, September 13, 1966:—

"The Honourable Senator Connolly, P.C., moved, seconded by the Honourable Senator Hugessen:

That the Senate do agree that the Joint Committee of the Senate and House of Commons appointed to enquire into and report upon the prob-

25225—1½

lems of consumer credit, be instructed also to enquire into and report upon the trends in the cost of living in Canada and factors which may have contributed to changes in the cost of living in Canada in recent months; and

That a message be sent to the House of Commons to acquaint that House accordingly.

After debate, and—
The question being put on the motion, it was—
Resolved in the affirmative."

J. F. MacNEILL,
Clerk of the Senate.

MINUTES OF THE PROCEEDINGS

THURSDAY, November 17th, 1966.

Pursuant to adjournment and notice the Special Joint Committee on Consumer Credit (Prices) met this day at 9.30 a.m.

Present: For the Senate: The Hon. Senators Carter, Cook, Croll (*Joint Chairman*), Hollett, Inman, McGrand, O'Leary (*Antigonish-Guysborough*) and Thorvaldson.—8.

For the House of Commons: Messrs. Allmand, Basford (*Joint Chairman*), MacInnis, McCutcheon, McLelland, Otto, Scott (*Danforth*) and Smith.—8.

In attendance: Dr. R. Warren James, Special Assistant; Mr. John J. Urie, Q.C., Counsel; Mr. Marcel Joyal, Q.C., Associate Counsel; Mr. Jacques L'Heureux, C.A., Accountant.

The following were heard:

Department of Agriculture:

Dr. S. C. Barry, Deputy Minister

Mr. E. P. Grant, Chief of Processed Foods.

Mr. S. B. Williams, Assistant Deputy Minister, Production and Marketing.

Mr. D. B. Goodwillie, Director, Dairy Products Branch.

Dr. C. K. Hetherington, Director, Meat Inspection Division, Health of Animals Branch.

Mr. E. Eardley, Director, Fruit and Vegetable Division.

Mr. F. E. Payne, Chief, Poultry Products Branch.

At 1.00 p.m. the Committee adjourned.

At 3.00 p.m. the Committee resumed.

Present: For the Senate: The Hon. Senators Carter, Cook, Croll (*Joint Chairman*), Hollett, McDonald (*Moosomin*), McGrand, O'Leary (*Antigonish-Guysborough*) and Thorvaldson.—8.

For the House of Commons: Messrs. Allmand, Basford (*Joint Chairman*), MacInnis, McCutcheon and Scott (*Danforth*).—5.

In attendance: Dr. R. Warren James, Special Assistant; Mr. Jacques L'Heureux, C.A., Accountant.

The following was heard:

National Institute of Economic Research of Sweden:

Professor Borje R. V. Kragh, Director.

At 5.00 p.m. the Committee adjourned until Tuesday next, November 22nd, at 9.30 a.m.

Attest.

John A. Hinds,
Assistant Chief,
Senate Committees Branch.

THE SENATE

SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON CONSUMER CREDIT

EVIDENCE

OTTAWA, Thursday, November 17, 1966.

The Special Joint Committee of the Senate and House of Commons on Consumer Credit met this day at 9.30 a.m.

Senator David A. Croll and Mr. Ron Basford, M.P., Co-Chairmen.

Co-Chairman Mr. BASFORD: The committee will please come to order. This morning we have with us Dr. S. E. Barry, Deputy Minister of Agriculture, and Mr. S. B. Williams, Assistant Deputy Minister of Production and Marketing. They will speak to us on the regulatory powers of the Department of Agriculture in so far as it relates to the whole question of packaging, labelling and standardization of sizes.

Before you start, Dr. Barry, I would like, on behalf of the committee, to express our thanks to you and your officials for appearing before us on rather short notice and for preparing your presentation so quickly. We had this morning open and that we must consider this subject, and we appreciate the fact that Dr. Barry and his officials were able to come before us at this time. Thank you.

Without further ado, I would ask Dr. Barry to proceed.

Dr. S. C. Barry, Deputy Minister, Department of Agriculture: Thank you Mr. Chairman. In the Department of Agriculture our activities with respect to the packaging and marketing of food products are related primarily to our legislative authority, having to do with the grading and inspection of farm products. Basically, we exercise this authority under two statutes, or two forms of statutes. The first is that having to do with the grading of farm products; the second is the legislation having to do with veterinary meat inspection, that is, the Canada Meat Inspection Act.

I thought, Mr. Chairman, that it might be most useful to the interests of your committee this morning, if I reviewed in general terms what we do and the legislative authority for it. Before I proceed in detail with this, I think it might be well for the purposes of the committee to point out that, in some respects in this total field of packaging and labelling, both the Department of Agriculture and the Food and Drug Directorate of the Department of National Health and Welfare are involved. Both departments administer legislation having to do with the labelling of food products. Ours, as I said, in this field applies primarily to commodities with which we are associated in grading and inspection. The food and drug regulations in the field of labelling can be applicable to all food products, although, generally speaking, where we cover this field in products with which we are concerned, the Food and Drug Directorate leaves this to us with respect to these particular commodities.

With respect to packaging proper, specifications of the size of containers, dimensions of containers, we are, so far as I am aware, the only department administering legislative authority. The Food and Drug Directorate requires, in the labelling, for example, that the marking show the weight or volume of

contents. They do not specify actually what size containers or dimensions of containers are required, however. As I said, I think we are the only department operating in this field.

Now, Mr. Chairman, I think that to clarify our authority in this respect, and I can work from this into our actual operating procedures, it might be useful to the committee if I referred specifically to the legislation under which we operate.

We have distributed two documents to the committee, and I presume all members have copies. The smaller of the two is the Canada Agricultural Products Standards Act. The second document, the larger of the two, comprises the Processed Fruit and Vegetable Regulations. If you look first at section 3 of the act at the bottom of page 1 you will see in subsection (1) "The Governor in Council may make regulations establishing grades with appropriate grade names for any class of agricultural products and, without limiting the generality of the foregoing, may, by such regulations"—and then if you will turn to subsection (d) it says "prescribe the sizes, dimensions and other specifications of packages in which an agricultural product must be packed and the manner in which it must be packed and marketed as a condition to application or use of the name of a grade so established."

So that under this particular statute where we have a standard grade or where we have standard grade names of agricultural products there is authority for regulations which prescribe the kind of package, the dimensions and sizes of packages which must be used as a condition of applying that grade name.

So that where we have standard grading procedures and where a grade name is applied to a product, we have authority for saying how that product must be packed and marketed as a condition of that grade name being applied. This provision is quite effective as a means of controlling container sizes and markings for products which are graded according to Canadian standards. I might explain how this works for the information of the committee by using a simple illustration like eggs. We have a Canadian standard grade for eggs. Our authority at the federal level to require the use of those standard grades extends obviously by constitutional authority only to interprovincial or international trade. However, all the provinces by their own legislation require that those grades for eggs be used for eggs sold within the provinces so the net effect of this is that all firms selling eggs must grade and mark them in accordance with the federal and provincial legislation applying to standard grades. These are the grades we see normally used, like Grade A Large, Grade A Medium. Under the authority of section 3. (1)(d) of the act there is a regulation which says that all eggs bearing a standard Canadian grade name must be packed in one of three sizes of containers. These sizes are a 30-dozen container or case, a 15-dozen container or box, or a dozen container which is a carton. The latter of course is the retail size and it can be split for half dozens. Since all eggs must be graded, they must all be packed in these standard containers specified by regulations.

As a result of this the package size for eggs is completely standardized. Now this principle of associating grading with package specification is followed quite widely with quite a wide range of food products. It is followed with fresh and processed fruit and vegetables and dairy products. The only substantial commodity with which we are associated so far as grading and inspection are concerned and in which we do not have regulations specifying container sizes is meats. There is authority for this, but we do not have it by regulation.

To take you further into our authority and procedure, I wonder if I might refer you to the larger book before you which contains the regulations for processed fruit and vegetables. I am using now the green covered larger publica-

tion. I am turning now to page 11 of that publication, and I refer you to section 20, which says that:

> Containers for canned fruits and vegetables set out in Table I in Schedule C, are as prescribed in that Table.

The table in reference is on page 148 of the English text; that is, Table I in Schedule C which was referred to. That is headed, "Containers for Canned Fruit and Vegetable Products for which Grades are Established." Below that are listed the container specifications which must be used in these particular commodities. Is that clear to this committee?

Co-Chairman Senator CROLL: Yes.

Dr. BARRY: Similarly, if you turn back to page 11, to section 21, it says:

> Containers for frozen fruits and vegetables set out in Table II in Schedule C,...

Table II in Schedule C is on page 149 and is headed, "Containers for Frozen Fuit and Vegetable Products for which Grades are Established." And it lists there the container sizes by net weight which must be followed.

That is the regulatory device, under the authority of the act which I quoted earlier, under which, as a futher illustration, we establish legal container sizes and specifications for processed fruits and vegetables. The principle in this connection is the same as I described for eggs; that is, all processed fruits and vegetables carrying the grade name must be packed in one of these standard size containers.

Up to the moment, Mr. Chairman, I have dealt with our authority and our operations in connection with packing and marking of agricultural products which bear a Canadian standard grade name.

Actually, we have authority beyond that, and if you will refer back to the act for a moment, which is this smaller publication, and refer to section 5 on page 3, this gets into a rather different field that that having to do with graded products. Section 5 (1) says:

> The Governor in Council may make regulations for prohibiting
>
> (a) importation into Canada,
>
> (b) exportation out of Canada, or
>
> (c) sending or conveyance from one province to another, of an agricultural product of any class unless it complies with prescribed standards, has been prepared in accordance with prescribed conditions and is packed and marked in prescribed manner.

Under that particular section of the act there is authority for regulations to specify the packing and marking of any agricultural product moving in interprovincial trade. Since grading is not involved in this particular case our authority is limited to interprovincial and export trade. However, where this is applied on that basis, the fact of standards having to be used in interprovincial trade almost enforces it widely in trade within a province.

I ask you now to turn again to the green book, page 18, section 49. This illustrates our use of this latter authority having to do with products that are not necessarily graded. Section 49 (1) reads:

> No person shall export out of Canada or send or convey from one province to another any food product of any class for which standards are established in Schedule B or any vegetable soups, fruit and vegetable

juices including fruit nectars, spaghetti in tomato sauce, infant foods and junior foods, unless

(a) the food product was prepared in a registered establishment

(b) —

And this is the important one that I wish to refer you to.

—the food product was packed in a container provided for that product in Table III in Schedule C.

Here again, under the authority of the act to which I referred, and this regulation, we exercice jurisdiction over processed fruits and vegetables which are not required to be graded but which move in interprovincial trade.

So much for the moment for packages. On the matter of labelling or marking, our requirements as you may expect, vary rather considerably with different products. On egg cartons, for example, we require only the grade name and the packing station number. On butter we require the grade, which is Canada first grade or Canada second grade, the net weight, the factory of origin and the words "Creamery Butter". On fresh fruits and vegetables, to use another illustration, we require the grade name, the name and address of the packer, the name of the product when it is not in a transparent container, and the weight in the container when they are packed in bags.

Another illustration is packages of meat products. We require the meat inspection legend, a true description of the contents, the weight, and the name and address of the packer.

Now, this becomes more complex when we turn to fresh fruits and vegetables, and in this respect, perhaps you would just glance for a moment at page 12 of the green book. In section 30 is listed all the information that shall appear on labels on containers of processed fruits and vegetables. These are very extensive; they go from subsection (a) to subsection (nn). They are not all required for everything; they vary with different commodities. The essential ones that are required are the net weight—subsection (g)—the common names of the product—subsection (b)—and then all these other variants are required in relation to the individual product.

There is one point of principle, Mr. Chairman, which I think I should make here. As I said earlier, we specify standard sizes, or standard containers by contents, of packages for a wide range of products which come under our grading or inspection authority. We have, as I said earlier, authority under the Agricultural Products Standards Act, to require the same thing for any agricultural product moving in interprovincial trade. The only group of such products for which we have not specified container sizes is that of meat products.

In respect of marking we have authority in respect of marking specifications for all products which come under our authority. The point I must make to the committee is that our authority in this area, in so far as the consumer is concerned, which is the one that is of interest to you, is limited obviously by the definition of "agricultural product" in the act. The act is this smaller document that I am showing you, and "agricultural product" is defined in section 2 (a) on the first page, which reads:

(a) "agricultural product" means livestock (including fur-bearing animals raised in captivity), eggs, poultry, milk, vegetables, fruit, honey and maple syrup, and products thereof".

There has since been an amendment to that which includes leaf tobacco. So that the products to which we can apply this authority, which the act provides, are restricted by the definition of "agricultural products" in the act, and these in the main are the ones in which we are involved in a grading and inspection function; but I presume if there was need to apply standard packaging to a wider

range of agricultural products, under the authority we have, this presumably could be done by adding to the products under the definition "agricultural products".

Mr. Chairman, I have tried, I do not know how adequately, to give the committee a rather general picture of our authority and operations in this field of packaging and marking. If there are questions on any points which I or my associates can answer or clarify, we shall be very pleased to do so.

Co-Chairman Mr. BASFORD: Thank you very much, Dr. Barry.

Senator HOLLETT: Mr. Chairman, may I ask a question. I suppose your department has no control over the price whatsoever?

Dr. BARRY: Over the price, no, sir.

Senator HOLLETT: I am from St. John's Newfoundland and there they have brought in perfumed nectar which is a product of fruit, and I found that the price range within 400 yards on a certain street was from 41 cents to 56 cents a bottle for nectar. Surely this is a matter of some concern for your department or some other department?

Dr. BARRY: Yes. Of course, this gets into the area of price control.

Senator HOLLETT: I was wondering why these prices have gone ahead in certain areas like this?

Dr. BARRY: We have no authority in respect to prices.

Senator HOLLETT: Thank you, that is what I wanted to know.

Co-Chairman Mr. BASFORD: Mr. Smith?

Mr. SMITH: Dr. Barry, what about the packaging of say fresh fruits, such as the regulation as to whether strawberries should be packed in a cardboard container or a wooden container. Does that come within your province?

Dr. BARRY: Mr. Eardley will correct me if I am wrong, but specifically we specify container sizes in pints, quarts. Whether a paper quart or a wood quart, or plastic, we do not specify in this connection.

Mr. SMITH: You do not have any authority over fruitgrowers in that connection?

Dr. BARRY: As to what type of container to use? No.

Mr. SMITH: Have you any authority to say whether—

Dr. BARRY: We would have authority probably, but we don't do this. We specify what the cubic capacity must be. As to the nature of the container used for that purpose we have not any exercise of jurisdiction over it in fresh fruits.

Mr. SMITH: I was dealing specifically with strawberries, in this instance.

Co-Chairman Mr. BASFORD: Senator Carter?

Senator CARTER: Dr. Barry, you have authority to determine the size of packages, tins, and also the amount of contents that go into the package. So far as the sizes are concerned which we now have, how were they determined, how did you decide this specific size was the right one?

Dr. BARRY: Broadly speaking I would think, senator, the sizes which we have specified have been worked out, and probably varied from time to time in consultation with industry, in relation to the sizes which serve the different needs of consumers. May I use the case of pork and beans—what we call beans with pork, as an illustration? I happen to have the actual sizes used before me at the present time. There is a five fluid ounces. This is intended to be, as I understand it, a size for an individual portion, that is, one person buying a can of pork and beans for his own use. That was added very recently. The eights and tens would probably do for two persons; the fifteen for three persons, and that sort of thing. This is the general philosophy back of the determination of the size

used. Then we get into the 105 ounce pack for industrial use, for the large family or for institutions.

Senator CARTER: Have you made any changes in recent years?

Dr. BARRY: This 5-fluid ounce was introduced. I would ask Mr. Grant to deal with that.

Mr. E. P. Grant, Chief of Processed Foods, Department of Agriculture: There have been a few changes over the years as consumer demand required it from the industry. The industry, in consultation with the department, mutually agreed about new sizes to be added. But there has not been any significant number added since they were first introduced in the 1940's for processed fruit and vegetables.

Senator CARTER: Did I understand you to say that in this particular case it was made at the request of the industry, not to meet any particular need of the consumer—that is, the industry wanted to put up this particular size? That is what I understood you to say.

Dr. BARRY: If I may, I would say that when we spoke of the industry having made recommendations, that means we would satisfy ourselves that this was required to meet specific consumer demand. We would I hope never permit both 19-ounce and 20-ounce sizes, which would be pointless. Where there is clear evidence that there is a demand, such as for the 5-ounce tin of pork and beans for one person serving, this proposal might arise and come to us in the first instance from what we term the industry, but we would satisfy ourselves that there is a valid and reasonable demand for it.

Mr. URIE: How would you do that?

Dr. BARRY: I would suppose, sir, by logic such as I applied in the case of pork and beans, where there was an increase in demand for a portion which would serve enough for one person.

Mr. URIE: I understand that, doctor. I am sorry to interrupt the senator. What I am interested in is that the initial interest about a 5-ounce can presumably came to you via the industry and then, you said a moment ago, as a result of consultations with the industry, you satisfy yourself that in fact there is a consumer demand for that size tin. My question was, how would you go about satisfying yourself that there was in fact such a consumer demand?

Dr. BARRY: I suppose, on the basis of logic, and the assumption that it is a valid thing to do. I wonder if it would be helpful on the matter of canned goods to say this—and it applies also to glassware, though primarily to the canned goods. In the beginning, there were no specifications in respect of container size, in this area at all. Prior to the war there were some 117 different can specifications for canned goods. There were 15-ounce, 15½-ounce, 16-ounce, 19-ounce, 20-ounce. Many of these were quite unnecessary and probably had the effect of misleading or not providing an accurate description for consumers.

The correction of this situation started about 1940. It started from two sources, actually. The steel controller in the Wartime Prices and Trade Board said: "I am not going to give steel for this wide range of cans; if you want steel you will have to standardize sizes into a much smaller number of cans, to conserve steel." He mandatorily laid it down as a condition of providing steel, tinware for cans. The industry had to make the adjustment.

Currently with that, in 1940, under legislation which we then operated under, the Meat and Canned Foods Act, we started to prescribe container sizes. Basically, what we have had since then has followed pretty largely the setup at that time.

Mrs. MacINNIS: Why do you have vegetables like beans with 15 ounces in a can whereas you have a 14-ounce size for corn? Many housewives want to know that.

Mr. GRANT: The 14-ounce container for corn holds what is known as vacuum-packed corn. You cannot vacuum pack very successfully in a tall container. The container has to be shorter, and this is why a different size container was provided for vacuum-packed corn. That particular size was chosen because it was manufactured by the can companies for other products. This is why it was prescribed for vacuum-packed corn.

Mrs. MacINNIS: Is there that much difference between the 14-ounce and 15-ounce size?

Mr. GRANT: No. It was not a question of there being much difference between 14 and 15 ounces. It was a question of using a container which was being currently manufactured and which would be suitable for the product packed.

Co-Chairman Senator CROLL: This is a supplementary. Dr. Barry, you have not answered Mr. Urie's question, because the evidence before us is that these people have excellent research facilities on which they spend thousands of dollar in ascertaining what the consumer wants, and all you do is use logic as against what they use. How do you explain that?

Dr. BARRY: I went into the background, senator, about the origin of this in order to explain that it started during the war. I asked Mr. Grant if it was correct that basically the can sizes we now have were established at that time. There have been some variations since then, such as the five-ounce can of beans, but I do not think there have been many of these.

Mr. GRANT: No.

Co-Chairman Mr. BASFORD: I am going to allow Senator Carter to finish his line of questioning.

Senator CARTER: Thank you, Mr. Chairman. I gathered that the sizes we have today were selected from a hodge podge of sizes that existed in 1940, when there was a shortage of steel and we had to do something about that problem.

Dr. BARRY: Right.

Senator CARTER: So we picked the most convenient sizes in existence at that time. We selected those few and we still have them. There has been no scientific research done in order to decide just what sizes should be made available for various sizes of families. Now, we are very careful, and I know Mr. Olson would bear me out on this, that when we are raising livestock, pigs or hogs, we determine what is the right amount of food each one should have. The people doing research for rations do comparative research in order to determine just how many calories are required by the individual person in order for him to maintain his bodily health and to eliminate waste and excess packaging.

I gather that there is nothing being done in your department or by any Government agency to determine whether the sizes we have now are the most convenient for the consumer. Is that correct?

Dr. BARRY: I am not aware, senator, that we have done any specific research in this connection. Are you, Mr. Williams?

Mr. WILLIAMS: No.

Senator CARTER: It would probably be done by another department; you would not be doing that sort of thing.

Dr. BARRY: No, but we would be allowed to.

Senator CARTER: Take the clothing industry as an example. Ready-made clothing is made in standard sizes for boys six years, eight years and ten years of age. Then, over a period of years, we find that those sets of measurements do not

fit any more. We have to change them all. In a similar way, the family structure in Canada is changing, but nothing in the way of research is being done anywhere in order to take into account these changing conditions. Is that not a fact?

Dr. BARRY: We have not done specific research in this connection, Senator, no. I am afraid we have not. It may be a very useful thing to do, sir.

Senator THORVALDSON: May I ask a supplementary question, Dr. Barry, in that regard? Has there been much research in the United States, for instance, in regard to this? Or would you follow the American practice to any extent?

Dr. BARRY: Mr. Grant tells me that he is not aware of any research being done in the United States in this connection either.

Senator CARTER: You see we have been told by certain witnesses here that when they put up their packages they are thinking in terms of a number of servings. We have also been told that some of the packages we now have are not economic for certain family units because, if they buy the larger package, which is a cheaper and better bargain per ounce, it is not actually a better bargain because they have more than they need and they throw away the excess.

Dr. BARRY: It is wasteful, that is correct.

Senator CARTER: So actually it is cheaper to buy the smaller package at the higher price. It should be useful, therefore, for someone to take the initiative and look into this problem.

Dr. BARRY: If I may interject something which is pretty relevant here, there are regional preferences here as well. I might illustrate this, not in canned goods but in potatoes, where we have specific standard bag sizes for potatoes. I cannot quote the bag sizes right now, although Mr. Eardley could quote them for me, but, if you look at the variety of sizes, you might think that there are rather more than would be required. However, there are regional preferences here and the west, for example, will want to use a certain size of container, the east will want to use another. These are historical preferences. You will see from the size specifications, the weight specifications for potato bags covers a rather wide range, but not all are used in the same area. They tend to take into account regional preferences, you see.

Senator CARTER: Is your department concerned only with the physical aspects of the problem, or are you concerned very much with the food value that goes into these containers?

Dr. BARRY: Senator, in the wide range of products in which we have authority over container sizes and marketings, these are products with which we are associated in a grading way and this has to do with quality. So in that respect we are, sir, yes.

Senator CARTER: Would you agree that the quality of potatoes, to use that example, may vary because they are graded on size or something of that nature, but that the food value may be identical regardless of whether the grade is choice or fancy?

Dr. BARRY: Oh, yes, this may be right, sir. Mr. Williams has drawn to my attention that our consumer section does put out publications which indicate and describe the relative food value of different grades in relation to food grades.

Mr. WILLIAMS: If I might interrupt, they will, for example, say in their publications that if the housewife wishes to have peaches for dessert, where the appearance of the peach is of importance to her, she doubtless should choose fancy quality. If, however, she wishes to use peaches for dessert in some type of pudding or something of that nature, she should choose standard quality because the nutritive value of the two is essentially the same. We do put out information of this nature on a fairly consistent basis, describing the various uses for the various grades of the various commodities as related to their nutritive value.

Senator CARTER: Is that a sort of consumer educational program?

Mr. WILLIAMS: Yes, by the consumer section of our production and marketing branch.

Senator CARTER: Do you have any preference for transparent containers over other types of containers?

Dr. BARRY: No. Basically, the transparent containers are more useful in letting the consumer see actually what she is getting.

Mr. WILLIAMS: If I might interrupt, there are problems in connection with certain transparent containers. For example, there is the difficulty with transparent containers for potatoes, that fluorescent lights in stores tend to make the potatoes turn green. There is a further problem with transparent containers for certain dairy products, where the fluorescent lights once again may cause oxidation and off-flavour at the surface of the product. But, other than that, there is a tendency on the part of the department to favour transparent containers over opaque containers.

Senator CARTER: I think I have had my share of the time, Mr. Chairman, thank you.

Co-Chairman Mr. BASFORD: Mr. McCutcheon.

Mr. MCCUTCHEON: Thank you, Mr. Chairman. I have just one question regarding the Canada Agricultural Products Standards Act, Part II, Section 5 (1) (a) importation into Canada. Rumour has it that we are going to be faced with the prospect of importing butter into Canada. Will your department have the authority to see to it that imported butter going onto the shelves of our retail stores will be properly designated as coming from, for example, New Zealand, South America, and so on, for the education of our consumer?

Dr. BARRY: Mr. McCutcheon, in our legislative authority we do not require the designation of the name of the country of origin on, for example, pound packages of butter. However, all butter sold in Canada must be graded with a Canadian grade name. If any butter is imported, it will be subject to that requirement and will have to be graded according to Canadian standards.

We do not require that the individually-wrapped pound of butter show the name of the country of origin on it.

Mr. MCCUTCHEON: If butter is imported in here by the ton and is then repackaged by one of our packers, the Canadian housewife could assume that she was eating Canadian butter and having regard to the program which the Government has instigated for the help of the dairy industry, this could result in another black eye for that industry. That may well be a little out of context, but we are talking about consumer education too.

Dr. BARRY: I would not have thought our butter promotion would receive a black eye. As I said, this butter would have to be graded as Canadian butter and would have to meet the specifications if sold as No. 1. I would not think the sale of any imported butter would result in butter being sold which would turn the consumer against butter.

Mr. MCCUTCHEON: I think you misunderstood my contention here. The fact is there is considerable feeling amongst our city people that the Government is spending money to subsidize the dairy industry here, and I feel that if we are to protect the producers and the consumer, and this is very vital, and if our dairy program is not working for the benefit of the consumer they should know that they are eating imported butter. I think this has a bearing on the cost.

Dr. BARRY: I presume that while the individual package would not be identified with a stamp showing the country of origin, if and when butter is imported that fact would be rather well publicized and the public would know this is happening. At this stage may I deal with a matter of the principle involved in this; it has to do with the total matter of international trade in agricultural products.

We as a country which depends extensively on exports of agricultural products like to feel that when our commodities go into foreign markets there are no restrictions and no actions taken against them which would inhibit or restrict our markets. There is periodic agitation, for example, for the marking of meats with the country of origin for the purpose of discouraging consumers in any country from buying imported goods. If this became very widely followed in other countries which are important to us in export markets, it could have an adverse effect on our export business in agricultural products. Our philosophy has been that products should flow freely, so far as trade restrictions permit, and that so long as they comply with the standards, and this is in our own interest in foreign markets, that there should not be any rather deliberate effort to discourage their use and to discourage the use of foreign products. For example, we have a very substantial interest in our meat sales to the United States, and there is periodic agitation there and periodically some action at state level to require the marking of imported meats with the name of the country of origin. Any restriction of this kind can have an adverse impact on our export business. We try to resist this in other markets, and coming into Canada we try to maintain the same principle.

Mr. McCutcheon: Your answer is fine, but I cannot understand the logic why we as Canadians should not be proud to have "made in Canada" on our products to the United States. I cannot understand why other countries sending products to Canada should not be proud to mark, for example, "Made in New Zealand" on their products.

Dr. Barry: I agree with you completely that we should be proud to mark our products "Made in Canada." However, I will ask Mr. Williams to deal further with this.

Mr. S. B. Williams, Assistant Deputy Minister, Department of Agriculture: I think there is what I might call a trade difficulty here. I am not speaking specifically of butter but of all commodities. Let us take, for example, the case of meat going into the United States at the present time. They have from time to time requirements laid down by the United States Government itself in respect of the marking of imported meats. The difficulty is not that we are not proud to have our meat called Canadian, because many of our products down there receive very high support and are accepted widely. Canadian back bacon, for example, sells at a premium and Canadian cheddar is well received down there. The difficulty arises when you get into the question of manufacturing or processing because their requirement is that all containers used for this meat, when it goes from the processing plant to the retailer or retail outlets, and further on in the retail outlets, must carry the designation of the country of origin. The effect of this is that meat packers, for example, are required to maintain a very large inventory of packages marked in different ways, or labels marked in different ways. The same thing applies in the retail store. In a situation like this the packer or retailer may say "This is too much bother for me; I am not going to carry all these designations. I may be caught on this—just give me American." This is why our cattle is sold and shipped to the United States live and then is slaughtered there because the meat is then considered to be a United States product so far as their law is concerned. It is difficult for our people to trade in carcass beef because of this impediment to trading. Let us take, for example, the trimmings. Legislation in certain countries require that products be marked with the country of origin. There are trimmings which go into various meat products, and the law requires this meat to be marked as coming from the country of origin. This means that within the plant they must segregate the trimmings and keep them segregated, and they find they are unable to do business efficiently on this basis.

Mr. McCutcheon: If we import butter into this country will it be repackaged here?

Dr. Barry: Yes, sir. If we import it here it will come in in bulk containers.

Mr. McCutcheon: And then it will be wrapped as a "York Farms" product or something like that and there will be no marking of the country of origin?

Dr. Barry: No.

Co-Chairman Mr. Basford: Senator Thorvaldson?

Senator Thorvaldson: I have one question. I want to ask about the sanitary methods in connection with products coming in from foreign countries, such as butter. Who knows if the product is produced under sanitary conditions? Is anything being done by Canadian importers to ensure this?

Dr. Barry: I will ask Mr. Goodwillie to answer this.

Mr. D. B. Goodwillie, Director of Dairy Products Branch, Department of Agriculture: We require a certificate of purity from the exporting country on butter. We require this before it comes in. Then it is repacked at the port of entry before it is sold in Canada. However, we should keep in mind that we have only imported butter twice in the last 25 years.

Co-Chairman Mr. Basford: Senator O'Leary.

Senator O'Leary (*Antigonish-Guysborough*): I am going to continue on the question of butter for the moment. You say we have imported butter once in the last 20 years. When was that?

Mr. Goodwillie: 1951 and 1956-57.

Senator O'Leary (*Antigonish-Guysborough*): To your knowledge, have any of the processors, the people in the business, at any time used a combination of our own storage butter, imported butter and, let me call it, fresh butter, the third category?

Mr. Goodwillie: Well, butter, whether imported or domestic, is very often blended or re-worked with Canadian fresh or storage butter. This is the difficulty in making the country of origin.

Senator O'Leary (*Antigonish-Guysborough*): Dr. Barry, Mr. Williams, judging by his remarks when he was using beef as an example, apparently you want to maintain some form of standardization in grades, for example, and I could go back to Mrs. MacInnis' question about confusion in the mind of the consumer. She took the instance of corn. I do not believe all the committee members are aware, and I am not too clear myself, of the 14 and 15-ounce situation. I believe I am correct in saying we still have some 15-ounce corn—not necessarily vacuum pack—on the market.

Dr. Barry: Right.

Senator O'Leary (*Antigonish-Guysborough*): Is there not a cut-off date—perhaps January, 1967—when we are going to have one size corn and the consumer will know that is it?

Mr. Grant: No. If you will refer to Table I, Schedule C, on page 148, you will note that where we prescribe the 14-ounce can for vacuum pack the dimensions are 307 x 306; whereas the can that is used for cream style corn is the 300 x 407—it is the taller container.

There is an amendment to these regulations that has been enacted by Order in Council, but the amendments have not yet come forward from the Queen's Printer. They will change the 300 x 407 container, which will henceforth be designated as 14 fluid ounces and not 15.

Co-Chairman Senator Croll: One supplementary question. The 307 x 306 is the only one of its kind on Table I, as I see it.

Mr. GRANT: That is correct.

Co-Chairman Senator CROLL: I understood Dr. Barry to say it was similar to many others and was a commonly used one.

Dr. BARRY: I do not recall saying that, senator.

Mr. URIE: Did you not say, Mr. Grant, that was a size of can in common use? That is one of the reasons you gave for the retention of the 14-ounce can.

Co-Chairman Senator CROLL: I think perhaps he said the manufacturer had not stopped using it up.

Mr. GRANT: Vacuum-pack corn is a relatively new product. At the time they started packing it, due to the processing, it requires a different shaped container than the one used for cream-style corn. In other words, the cream style one was tried and did not work out satisfactorily due to the process required. There was a container on the market, not being used in Canada but in the United States for various products, and this container was adaptable to the vacuum-pack process. This is the container that was used, and this is why it is designated 14-fluid ounces.

Mr. URIE: Thank you.

Senator O'LEARY (*Antigonish-Guysborough*): Thank you for that explanation. A larger area of confusion to me, and I presume you are attempting to make efforts in the direction of clearing this up all the time, is in the grades. I know we were speaking of containers first thing this morning but were always using the phrase "with a graded product."

I am going to take, for example, the butter which we were speaking of and where we have Grade 1 and Grade 2, for example. Then we find that pertains to quality. Then we find that in the case of pears, as witness Gerber told us, they have Grade 1 and Grade 2 pears, and this pertains to size. In eggs we say Grade A large. In pears we say Grades 1 and 2, and this pertains to size and not to quality at all. Is there not confusion here?

Dr. BARRY: Senator, this question of standardization of grade names among different commodities has been a rather hot one for a great many years. The grade names that are now in use for the various commodities originated many years ago at the outset of the grading procedures for those commodities.

You can get two philosophies on this. One is obviously that if you use a numerical or alphabetical grade anything below a No. 1 or letter A carries the implication of being suspect when, in fact, it may be a second grade but may not be quite as inferior as the use of a numerical or alphabetical designation would apply. It is for this reason that in some commodities, such as in fruits and vegetables and their products, the terms Fancy and Choice have been used. There has been an understandable reaction that these often are not descriptive. How do you describe what is a Fancy, what is a Choice and what is a Good? This is an area that has concerned us a great deal, and I can only say to you, sir, it is one in which we are rather actively involved now internally in trying to work our way through it, but we still have the situation where we have this variety of grades to which you refer.

Senator CARTER: May I ask a supplementary?

Co-Chairman Senator BASFORD: Yes, Senator Carter.

Senator CARTER: Would it not be possible to have letters for quality and numbers for size? Then you would be giving the quality and the size.

Dr. BARRY: I was just inquiring, senator, with reference to your reference to Grades 1 and 2 in pears meaning size. This is a processing designation; it does not appear on consumer packages.

Senator O'LEARY (*Antigonish-Guysborough*): This is correct, but it fooled me completely when I saw it in their brief. The answer to my question was that

you would like to get more agricultural products aggregated under a label which is more easily identifiable?

Dr. BARRY: We would like to bring it to a situation where we have more uniformity in grade designations, yes, sir.

Senator O'LEARY (*Antigonish-Guysborough*): Finally, a question about potatoes. To me this is an area of confusion, and I presume provincial regulations have quite a lot to do with the sale of potatoes in the retail stores.

Mr. WILLIAMS: Particularly in this province.

Senator O'LEARY (*Antigonish-Guysborough*): Perhaps this is where I find the difficulty. In other words, Canada No. 1 potatoes is the normal grade and that one label applies in Ontario, New Brunswick, or P.E.I. This is what we see in the stores, but we know nothing about the breed of this potato when we purchase it. It might be one of the best qualities of P.E.I. potatoes or one of their smaller, soft commodities.

Dr. BARRY: We do not require the variety to be shown on the package.

Mr. ALLMAND: Mr. Chairman, I was reading these regulations for a while, and I might ask a question that was asked already, and if I do, please rule me out of order.

What about glass containers? Could you give a reason why these are not included under these regulations?

Dr. BARRY: We do include glass containers.

Mr. ALLMAND: I am looking at page 148, and following, in the schedules, and I see that these seem to apply only to metal containers.

Dr. BARRY: If you turn to page 11 of the green book you will see that section 23 provides:

> The actual volume of glass or other types of containers not made of metal shall be equal to the actual volume of metal containers for the various products set out in Table I and Table III in Schedule C.

Mr. ALLMAND: I see, so that glass containers must be of the same size as the metal ones?

Dr. BARRY: The same volume—not the same size but the same volume.

Mr. ALLMAND: The same volume?

Dr. BARRY: Yes.

Mr. ALLMAND: My second question is in respect of imported products. Do I understand correctly that they do not have to follow these volume and size designations?

Dr. BARRY: They have to be the same.

Mr. ALLMAND: So imported products have to be the same too?

Dr. BARRY: Yes. Now, let me put in a small caveat there. There are some specialty products in the meat field, I think, and also in the fruit and vegetable field—and perhaps Mr. Grant could name a few of them. They are specialty things for which we do not have a container size.

Mr. GRANT: If it is a product for which we in these particular regulations prescribe a grade—you will notice that further on in those regulations there are other classes of products for which we do prescribe containers and for which we prescribe a standard of identity—if it is not in either of those classes of products then we do not require standard containers. For example, passion fruit salad is one thing that comes in. We do not prescribe standard containers for this. In the West Indies they have a type of pea which is entirely dissimilar to the garden pea that we have here. They call them pidgeon peas, and for these we do not require a standard container.

Co-Chairman Mr. BASFORD: I take it that passion is unlicensed, then.

Senator THORVALDSON: I have a supplementary question. I notice that a great deal of marmalade and jam is imported from the United Kingdom. I am thinking of such items as Robertson's marmalade. Do we get that commodity in the same container that is used for the home market, or would that be in a different container? Is it in a container that complies with Canadian law, or is this an international situation?

Mr. GRANT: With respect to jams and jellies we do prescribe the volume of the container that shall be used. You will find that listed in the large document page 151, in subsection (14) at the bottom of the page. Any imports of jams, jellies, or marmalades must be in a container of one of those prescribed volumes.

Co-Chairman Senator CROLL: The first one is 2½ fluid ounces. What is that size used for? Is that a particular restaurant size?

Mr. GRANT: This is meant to cover the little individual portions you get in restaurants and on 'planes, and that sort of thing.

Co-Chairman Senator CROLL: You mean 2½ ounces?

Mr. GRANT: We will permit 2½ fluid ounces or any amount under 2½ fluid ounces.

Co-Chairman Senator CROLL: Yes, we get the under.

Dr. BARRY: Mr. Chairman, I wonder if I could make a point here that might be of interest to the committee. This whole matter of packaging, marking and grading, and different standards within different countries, causes some considerable confusion and concern. We are always annoyed on our side in Canada when we want to export a product in one of our standard containers to another country, and then find that their requirements vary from ours. We have to make a judgment as to whether it is worthwhile to put up the product in containers of their specification. Similarly, when we require, as we do, that an imported product must meet our specifications then the exporters in the country of origin are concerned as well.

Your committee might be interested to know that there is some effort being made—and it is showing some element of success—towards resolving some of these differences, and in arriving at more standard specifications internationally, so as to avoid these difficulties in trade.

This is being done in two areas. It is being done by a committee under the O.E.C.D., and by an organization known as the Codex Alimentarius which is set up by the F.A.O. and the World Health Organization. These bodies are working in the same direction. So, there is this international effort towards arriving at some harmonization of requirements of the different countries so as to alleviate the difficulties that arise for all those in international trade.

Co-Chairman Mr. BASFORD: What is the thinking of the Department towards getting into the metric system?

Dr. BARRY: The Department officially has no views.

Co-Chairman Mr. BASFORD: What are its views unofficially?

Dr. BARRY: As an unofficial comment I will say that I think that in many ways in respect of agricultural products we are so closely interwoven with some of our major customers that a change would be difficult. I am thinking particularly of the United States and the United Kingdom, but the United Kingdom is thinking this way as well.

Mr. ALLMAND: Have you ever considered regulations, or do you have any regulations, with respect to these food mixes in prepared containers, and so forth? Is there any regulation or examination of these types of food?

Dr. BARRY: That, I would think, would come under Meat Inspection.

Dr. C. K. Hetherington, Director of Meat Inspection, Health of Animals: There are no standard sizes set for these products. Poultry pies, chicken pies and beef pies invariably fall into the 8-ounce category. Some firms have manufactured 1-pound pre-frozen pies. T.V. dinners invariably fall into the 11 or 12-ounce category.

Mr. ALLMAND: Is there a grading of these products as to fancy or choice quality? Does that sort of grading apply to these things?

Dr. HETHERINGTON: There is no grading whatsoever.

Dr. BARRY: But there is with respect to the composition?

Dr. HETHERINGTON: Yes, in respect to a poultry pie or a beef pie the meat content is minimum to the extent of $1\frac{1}{4}$ ounces of cooked meat in an 8-ounce pie.

Mr. ALLMAND: I see, and you have inspections from time to time?

Dr. HETHERINGTON: Yes. $1\frac{1}{4}$ ounces of cooked meat, of course, would be converted back to roughly 3 ounces of raw meat.

Mr. ALLMAND: What about fresh fruits and vegetables—is there any regulation as to grading with respect to them? Many consumers complain that when they go to a supermarket and buy these packed tomatoes, and so forth, the ones on the top are all nice and red and good looking, and underneath there are green, rotten and soft tomatoes.

Mr. E. Eardley, Director of Fruit and Vegetable Division, Department of Agriculture: Yes, sir, there are regulations for some 30 fruits and vegetables of the kind grown in Canada. These are inspected—not all, but there are three areas at which these are inspected from time to time. A fairly large percentage of them are inspected at the time of shipment. Our inspectors at distribution centres such as Ottawa, Toronto, Winnipeg, etc., do carry out administrative inspections at the wholesale level as well. Then there is a retail inspection that is carried out at the retail level in some twelve cities across Canada. One of the problems that—I presume you are talking about a 6-quart basket, or something of that size?

Mr. ALLMAND: Sometimes in the supermarkets you get 10 or 15 tomatoes, let us say, in a little cardboard package with cellophane over it. My question is: Do you have regulations that require the people who pack tomatoes, peaches and things like that, in these cellophane-enclosed packages to have a good product? I ask that because these can be deceiving. I bought some last week and every one at the bottom was green, but they were all beautiful and red on the top.

Mr. EARDLEY: Were these in one of these, what we call, boats with a shrink wrap?

Mr. ALLMAND: That is right.

Mr. EARDLEY: This does happen.

Mr. ALLMAND: Is there a regulation forbidding that sort of thing?

Mr. EARDLEY: The regulation regarding maturity of tomatoes applies only at the time of actual packing because always—and it does not take too long under these lights—the tomatoes in the top layer ripen faster than those underneath. The ones you bought may or may not have been actually packed in the store where you purchased them. Very often, they are packed by a service wholesaler, and then delivered to the store. But, I do not think they actually try to put the green ones on the bottom. I do not know whether—

Co-Chairman Senator CROLL: Well, they never put them on the top.

Mr. EARDLEY: They do ripen—if you get a 6-quart basket you will find this ripening more pronounced. You can get a 6-quart basket that has been packed for three of four days, and in respect of which the maturity of the tomatoes was

the same when they were put in. They can be fully ripe on the top, with a percentage still ripe lower down.

Mr. ALLMAND: One sometimes finds the ones underneath bruised and soft and on their way to rotting, whereas the ones on top will be very attractive.

Mr. EARDLEY: This is the varying type of produce in the retail stores that this section of the department is having constantly withdrawn from sale. We do not profess to get them all, but we get a very large percentage withdrawn if they are in that condition.

Mr. ALLMAND: And is there a regulation which tries to prevent that sort of thing, and is there a sanction if it is done against the regulation?

Mr. EARDLEY: Let us be very clear with the committee first. Specifically dealing with tomatoes, do we have any authority with respect to quality of tomatoes sold in retail stores unless they are graded in grade name; that is the first point. No. Our authority only applies if they are marked with a grade name. The requirement that they must be marked with a grade name within the province is outside of federal jurisdiction. This must be a provincial requirement.

I referred at the outset to eggs, where all eggs are sold with a standard grade name, because all provinces require that all eggs sold within the province must be graded with a grade name. But I think we must be clear to the committee that we only have authority to deal with any product in a retail store with respect to quality if it is marked with a grade name.

Mr. ALLMAND: My other question is this. You have regulations here, I presume, that have requirements with respect to the amount of actual pieces of fruit or vegetable, as compared with the amount of juice. In other words, if you have standard tins of peaches, let us say, is there any regulation in this connection?

Mr. GRANT: No, sir. We do not prescribe the number of pieces of peach, but we do have requirements for the drained weight of fruits and vegetables, and those are in the regulations starting at page 152.

Mr. ALLMAND: Often one gets complaints by consumers. They say, "We don't want to buy the juice, we want to buy fruit." They complain that they get very few pieces of fruit in a can compared with the amount of juice; but you say this should be regulated?

Mr. GRANT: There is provision for minimum grade weights here. We also make provision for what you refer to as pieces. We limit the amount of trimming, depending on the grade that is declared of the product.

Co-Chairman Mr. BASFORD: May I ask a question relative to that? These figures seem rather high to me. If you take an ordinary can of peas, say 15 ounces, I take it it contains 5½ ounces of water, which is over a third water. That seems very high to me. That is almost as bad as the whisky we buy.

Mr. GRANT: Let me take peaches, for example, which the gentleman referred to a moment ago. Peaches at the canning factories—these weights that have been arrived at here are arrived at so that when the peaches are filled in at the canning factory the fruit will be to the top of the can, but not much above it, because through the closing machine the fruit would be crushed. The actual number of peaches in a tin will vary, of course, quite considerably with the size of the peaches. I happened to be down in the Niagara peninsula this fall when they were canning peaches. Normally in a 20-ounce tin you will get four to five peach halves. This year on account of the drought down there the peaches were all very small and they were having to put in seven to eight peach halves to fill the tin. That is also tied to the fact of the grade weight requirements, not to the peach halves themselves.

Co-Chairman Mr. BASFORD: But to go back to peas. Is that the least amount of water you can have in them?

Mr. GRANT: That is correct, sir. When you fill a can with peas there is still an awful lot of air space, and this is the space that is filled with the brine. To fill a can with peas you would have to crush the peas.

Dr. BARRY: Just a moment, Mr. Grant, the Chairman asked if the amount of water in there was the minimum amount. Actually, it is the maximum, is it not?

Co-Chairman Mr. BASFORD: They must have 9½ ounces of peas out of a 15 ounce tin.

Mr. GRANT: Yes, and normally it takes up this brine, it still takes that amount of water for the air space.

Mr. ALLMAND: What would happen if you had a can without brine to fill up the space?

Mr. GRANT: With the oxygen that would be in there the flavour would very, very quickly be destroyed. Another point, on the matter of processing and sterilization, the amount of heat you would have which would apply to it in a length of time, you would have a complete mush.

Mr. ALLMAND: You have taken a long time to arrive at that answer to the question. One final question. We had cereal people here, and people that pack various sorts of things, and there have been complaints about sizes of packages too. Have you ever considered grading the packages, say of breakfast cereals or soaps, and other things derived from agricultural products?

Dr. BARRY: No, sir. As I pointed out, the products that we can cover legally under the act are those defined as an agricultural product in section 2A, and these are the products which historically we have been involved in grading. Now, we have never been involved in grading of packaged cereal products or any cereal products. I make the reservation there that the Board of Grain Commissioners are involved in the grading of cereals per se, but there is no grading of cereal products. Those are highly processed products and would not lend themselves to grading. By virtue of the definition as it now stands we have no authority as to container size of these products, and there is no kind of regulation for these items.

Mr. ALLMAND: I presume if the act were amended there would be no difficulty in grading and inspecting these things just as you do present products?

Dr. BARRY: Mostly our grading is associated with actual raw products or processed raw products. I would rather hesitate on behalf of the department to grade cornflakes, for example.

Mr. ALLMAND: What have you to say with regard to container sizes?

Dr. BARRY: Well, the container sizes are a different item, sir. I am not a legal authority and I would hesitate to be firm on this, but theoretically I would think that if cereals were included in the definition of "agricultural product" under the act in section 2A, that under section 5 of the act we could specify container sizes for a product moving into interprovincial trade. I think that would be the sequence.

Mr. ALLMAND: Thank you.

Co-Chairman Mr. BASFORD: Dr. McGrand?

Senator MCGRAND: I have two questions going back to packaging and canning. You mentioned page 148. There has been a tendency to suggest that the canners are using different types of cans and packages, perhaps for some ulterior motive. Does your department exercise control or direction over the type of packaging or canning that is used, or are the canners and packers free agents in selecting the type of package and can that they use?

Dr. BARRY: They must pack the canned goods in one of the containers specified on page 148, sir. They cannot pack them in any other size of container or in any other dimension of container.

Senator MCGRAND: And they can select their own size of package?

Dr. BARRY: Only within this range or size.

Senator MCGRAND: There has been evidence presented here that in some cases the can costs more than its contents. Is there any prospect of a less expensive can without damage to the quality of the contents?

Mr. GRANT: There is a lot of research being done in this direction. At the present time there is nothing on the market that will replace the metal container for processed foods and vegetables.

Senator MCGRAND: Who is doing that research?

Mr. GRANT: It is being done mainly by the can manufacturing companies.

Mr. URIE: You advised the committee that standardization of cans really started in 1940 under wartime regulations. From the tables I, and III here it would appear that basically there are six sizes of cans. Were those sizes—or how many sizes—were prescribed under the initial regulations issued during the wartime steel control?

Dr. BARRY: I cannot answer that.

Mr. GRANT: I could not tell you exactly, sir. It was somewhere in the neighbourhood of 20. But I could provide you with that information.

Mr. URIE: Are those sizes of cans, in Tables I and III basically the same as were prescribed under the regulations during wartime?

Dr. BARRY: Except that, as Mr. Grant said, at that time the regulation covered about 20.

Mr. GRANT: If you go through the list very carefully you will find more than six.

Mr. URIE: Yes, but I said "basically 6".

Mr. GRANT: Basically these are the sizes that were prescribed during wartime.

Mr. URIE: That is, the 10, 15, 20, 28, 48, and 105 -ounce sizes. Those are the six basics but of course there are variations?

Mr. GRANT: Yes.

Mr. URIE: Why do you have two different sizes of 15-ounce cans for fruits, sugar syrup and vegetables; and in the 6-ounce size you have fruit and vegetable juices—different sizes and outside measurements.

Mr. GRANT: The two different dimensions of 15-ounce can were prescribed for the type of products for which they were used. The can with the wide dimension was prescribed because at that time pineapple was imported into Canada raw and canned here and they needed a larger diameter than the other 15-ounce can.

Mr. URIE: If that was the case, why could it not have been reversed? One of the basic complaints which appears frequently, in evidence tendered before the committee and in correspondence received, is that there is a proliferation of sizes. If you have to have a larger can, for pineapple, and if there is sufficient demand for pineapple, why do not all other cans be made of that diameter, rather than have two different diameters?

Mr. GRANT: I am not sure that I can give you the exact answer to that, because as I say these sizes were carried through since wartime.

Co-Chairman Senator CROLL: That does not follow from his question. He gave you six normal sizes that have carried through. There is no question about that. If you look at pages 48 and 50 you find there certainly appears to be a

6-ounce size, and then there is a 5-ounce and an 8-ounce. These are recent innovations.

Co-Chairman Mr. BASFORD: Mr. Grant said there were five or six basic sizes, but 20 sizes altogether.

Co-Chairman Senator CROLL: Later on during the evidence I think Mr. Barry indicated that these new sizes, the 6-ounce and 5-ounce, came more recently as a result of requests by the manufacturers and as a result of his logic that it should be so, and as I understood Mr. Barry to say.

Dr. BARRY: I was referring to pork and beans specifically, but the same thing applies here.

Co-Chairman Senator CROLL: Very well.

Mr. URIE: There are two sizes of 15-ounce pork and beans. Why are there two? I am not blaming you, Mr. Grant. I am just wondering why?

Mr. GRANT: This was simply so that the manufacturers would be able to use that container which they had in inventory, and not have to carry large inventories of both sizes.

Mr. URIE: But surely packers of pork and beans are not likely to be also—not necessarily, anyway—packers of pineapple?

Mr. GRANT: A good many of them are. As a matter of fact, a lot of the people who pack pineapple are packers of the other.

Mr. URIE: Why not have a single can for all purposes. Surely for the consumer it is easier and for the manufacturer also.

Dr. BARRY: We are not providing very suitable answers to these questions.

Mr. URIE: It comes down to this, that it is not as a result of a demand by the consumer but as the result of the demands that the industry has made, that you have agreed to the various sizes?

Dr. BARRY: This appears to be so and it may be so. I am not sure of the real reason at the moment. I would like to observe that while there are some discrepancies of this nature in here, I think that in this particular area at least it has to be recognized that the specification of these container sizes has changed very materially a situation which existed before the war, with over 100 of these container sizes. There is a specific area of progress, even though there may still be some discrepancies.

Mr. URIE: Would you say that these discrepancies are under continual investigation by your department and that you get representations from consumer associations and others that there probably should be a further limiting? Or is your communication basically only with industry?

Dr. BARRY: It may be that is because we had assumed that we had standardized the fluid content. The tins are labelled to show what the fluid content is. It could have a slight variation. I would presume that the standardization had been effected in the fluid content. Whether there is any difficulty in having two different sized cans with the same fluid content, I do not know.

Mr. URIE: From what can be observed and was given in testimony here, there is probably more confusion between sizes than there is in the content. The average person does not even look at the content of the package, but at the size of the package in contrast to another. It is in this area that investigation is important to this committee. Originally, I was asking you in connection with your additional canned sizes arising as a result of representations being made by the industry. I asked the question as to how you verify the apparent representations of industry that there was a demand for different can sizes. Have you anything further to say on that?

Dr. BARRY: No, nothing to add to what I said before, that in our judgment this was the logic of it.

Co-Chairman Senator CROLL: We have a research council in Canada. Is there anyone to whom you could refer this for a research opinion?

Dr. BARRY: I do not think the National Research Council *per se* engages in research with respect to consumer requirements or consumer needs. They are more in the area of physical research.

Mr. Eardley left the room to verify one point for you, relating to a question by Mrs. MacInnis, as to the persons served or the value of different sized tins. We have verified that the nutrition division of the Department of Health and Welfare have a publication, "How to Plan Meals", in which they attempt to break down the numbers of servings in various sized tins, as a guide in this connection. For example, one illustration that Mr. Eardley received was a 20-ounce tin of fruit or vegetable juice designed for four or five servings. This type of information is contained in that publication. I realize that that is not completely relevant to your question, sir.

You asked how we verify that there is, indeed, a consumer requirement for any change of specifications which may be requested of us by an industry. I cannot say that in the past we have had a formal means of checking this. There are many things we do in which the Consumer Association have an interest or an objection. If they have an objection, they certainly draw it to our attention, you know. We are hopeful of setting up a more formal and better liaison with consumer groups to help us in this connection. I can certainly say that, sir.

However, we have no formal consultation procedures in this respect.

Mr. URIE: May I ask Dr. Barry or Mr. Grant whether the canners in particular are still seeking, from time to time, further variations in can sizes?

Mr. GRANT: In the last four years we have only had a request for one additional size.

Mr. URIE: How was that request disposed of?

Mr. GRANT: It was accepted. It was a size for junior foods.

Mr. URIE: Who made the representations there?

Mr. GRANT: The manufacturers of baby foods. It was made through the Canadian Food Processors Association.

Co-Chairman Senator CROLL: Do you mind if I ask a supplementary on this? On Table III, on page 150, there are two volume designations for instant and junior foods. They are four and three-quarter ounces and eight ounces. Can you explain the four and three-quarter ounce size, which seems to me to be an unusual size?

Mr. GRANT: The four and three-quarter ounce size, sir, is what is called an infant food serving, and the eight-ounce size is intended for children who are slightly older and require a larger serving. It is called the junior food size. It is intended for children between the very young stages and the stage where they start to eat ordinary food.

Co-Chairman Senator CROLL: I quite appreciate that, but why four and three-quarter ounces?

Mr. GRANT: I could not tell you why, sir, other than that I assume, when that particular size of can was introduced, it was one being currently manufactured.

Co-Chairman Senator CROLL: Then we get back again to this question: are the people who are manufacturing the goods designating the size of cans or are we designating the size of cans? Do the manufacturers say, "This is the size of can we want to fill," and do you then say, "Fine. If you are manufacturing that

size, that is what we will use." If so, that is not the purpose of the exercise, as I understand it.

Mr. GRANT: Well, if I may attempt to answer that, sir, originally, when the sizes were selected in 1940, between the industry and the department certain sizes were agreed upon which would give the consumer reasonable choice as to quantity of purchase, and those sizes were selected which were currently being manufactured so that the can manufacturers would not be put to the expense of changing their can manufacturing equipment. Those sizes have continued to be used since that date.

Mr. URIE: Is the eight-ounce size of junior food the one which was added as a result of the request?

Mr. GRANT: Yes.

Mr. URIE: Before that there was only the four and three-quarter ounce size, is that right?

Mr. GRANT: Yes. That was the original size.

Co-Chairman Mr. BASFORD: I believe a previous witness explained that junior food have just recently come onto the market.

Mr. URIE: They were new when my 17-year old son was only one year old. They are not that new, therefore. May I ask a question relating to Table I again? I notice that the regulations have come up with a novel size tin, five fluid ounces, for mushrooms. As opposed to six fluid ounces for fruit and vegetable juices, this is the first time this size has ever been seen. Tomato paste and pork and beans also have been put up in six-ounce cans. How do they arrive at five ounces in one case and six ounces in another? Who determines what size the consumer wants?

Mr. GRANT: You will notice, sir, that if you look at the one prescribed for mushrooms that it is the same container, 211, that is prescribed for pork and beans.

Mr. URIE: That is right, but why is it different from the tomato paste at six ounces and fruit and vegetable juices at six ounces, which are 202 times 308?

Mr. GRANT: Again, the type of product is not conducive to being packed in the six-ounce tin which has a very small diameter but which is a tall tin. This makes it very difficult to pack mushrooms in this tin, for example.

Mr. URIE: You have a 202 by 314 size also under fruit and vegetable juices.

Dr. BARRY: That is a much taller tin.

Mr. URIE: Why do you have that tin?

Mr. GRANT: The first figure gives you the diameter of the container.

Mr. URIE: But why have a six-ounce container in two different heights?

Dr. BARRY: They are for different juices.

Mr. GRANT: That, sir, is an anomaly which is taken care of in the amendments recently passed.

Mr. URIE: All right. Why is there a 13-ounce tin for tomato paste, which is the only one I have seen at 13 ounces?

Mr. GRANT: This is correct. It is, as I recall it, the only 13-ounce size. Again, I cannot give you the answer as to why. It had been in the regulations for some time prior to my joining the department. I am not sure of the background.

Mr. URIE: You will investigate that, will you?

Mr. GRANT: I certainly will.

Mr. URIE: I have just one other question, and it gets away from the cans for a moment. On page 160, Sections 2 and 3, you show the illustrations of the grade declarations to be indicated on labels, and there is a distinction between those products packed in Canada and those packed elsewhere. How does that distinction meet with the observation made earlier by Dr. Barry, when he said that

there was no geographic designation on labels of products coming into Canada? That observation arose from a question dealing with butter. In fact, there obviously is a geographic designation.

Dr. BARRY: The question here is a little different from that which arose in connection with butter. You will notice that the first group of grades are called Canada Fancy, Canada Choice and Canada Standard. These have to do with product packaged in a registered establishment in Canada. The second group, Fancy Grade, Choice Grade and Standard Grade, has to do with products which are imported and sold in the original container. These products are not packed in Canada; they are imported in and sold in their original containers.

Mr. GRANT: Yes, that is correct.

Dr. BARRY: In this case, since they are not packed and graded in Canada, the word "Canada" is not applied to the grade name. In the case of butter, I believe the question was more directly concerned with the name of the country of origin. Then name of the country of origin is not required here either, as I see it, on the grade name. The word "Canada", since the product was not packed and graded in Canada, does not apply to it.

Mr. URIE: It does indicate to an observant purchaser that one product is a Canadian-packaged product and that the other is not.

Dr. BARRY: At least with respect to the Canadian product it identifies it as a Canadian product; it does not identify the non-Canadian product as being non-Canadian.

Mr. URIE: Well, it has that effect.

Dr. BARRY: It has the effect, if you understand the implications, yes.

Mr. WILLIAMS: If I might interrupt, I think the point that I raised is that the concept here is that, if a product goes in that requires further processing, the trade difficulties associated with the further identification of that into trade channels are such that it could be almost a prohibition on international trade. Where it is moved in its original container, this does not happen.

We are talking here about a grade designation. We cannot allow a country outside of Canada to apply a grade designation. I want to be clear on this. If they brought in peaches, for example, in bulk and then they were canned here, in other words, we were able to inspect them in Canada, I believe—and I am subject to correction here—that we would allow them to put the Canada grade on them because our graders could see them during the processing procedures. We would see them being processed in a plant. The same thing would apply to raw produce processed in this country.

Where trade difficulties enter in is where the product comes in for further processing. Butter is a good example of this because you may have it reprocessed and consisting of one-third Danish, one-third New Zealand and one-third Canadian.

Mr. URIE: Then how can you be satisfied that the grade designation for an imported product in the original containers is the same as the grade designation in Canada?

Mr. WILLIAMS: They are subject to inspection.

Mr. URIE: Where?

Mr. WILLIAMS: In Canada. The cans are inspected.

Mr. URIE: On a spot check basis?

Mr. WILLIAMS: Yes. And in addition to that our people are familiar with the grading standards in the country of origin.

Mr. URIE: And is the standard designation then applied on the label in the country of origin or here?

Mr. WILLIAMS: Usually in the country of origin.

Mr. URIE: Then how can you be sure that the standards in Australia, for example, are the same as here?

Mr. WILLIAMS: By net results, and also by the fact that our people have knowledge of what they allow their people to do.

Mr. URIE: If, for example, you open a dozen cans of peaches and you find that their standards of "fancy" are not up to ours, what would you do then?

Mr. WILLIAMS: They would be placed in detention. And their people would have to explain the reason. Then they might be returned to the country of origin or they might be regraded here. If, for example, they were graded there as "choice" and then found not to be up to our standard they might be allowed to re-label them as "standard".

Mr. URIE: But does this ever happen?

Mr. WILLIAMS: Oh, yes, it does happen. You may see this in the store where a lable has been marked with one grade and has been stamped over with another grade. It happens all the time.

Mr. URIE: Is there a "substandard" label at all?

Mr. WILLIAMS: In some commodities.

Mr. URIE: In canned goods?

Mr. WILLIAMS: Yes, there is in canned goods.

Co-Chairman Mr. BASFORD: Mrs. MacInnis.

Mrs. MACINNIS: Dr. Barry, I would like to ask who has the authority to determine the weights and sizes of packaging for manufactured foods which come under the Department of Agriculture?

Dr. BARRY: The only authority we have with regard to manufactured foods is concerned with agricultural products.

Mrs. MACINNIS: Who else has that authority?

Dr. BARRY: The Food and Drug Directorate have the authority at times and do specify that these containers must be marked with the contents and the weight of the contents.

Co-Chairman Mr. BASFORD: The food and drug people are coming before us too, Mrs. MacInnis.

Mrs. MACINNIS: Now I would like to ask about the consumer section. I think the whole discussion this morning about grades and sizes of cans has pointed out very definitely the need for the department getting a great deal more advice from the consumers and much less from the manufacturer than has been the case up to now. I would like to ask first of all when you Consumer Section was established.

Dr. BARRY: I have been in the department since 1925 and my recollection is that there was a Consumer Section even then. I am not positive of this, but I think that is the case.

Mrs. MACINNIS: What are its functions?

Dr. BARRY: The functions of the Consumer Section primarily are to prepare and do investigation work on various methods of preparing foods, dishes and this kind of thing, besides publicizing these to housewives. I think you will notice in a great many of the women's pages in newspapers that there is quite regularly information about recipes and the methods of using various food products put out by the Consumer Section.

Mrs. MACINNIS: Does the function include consumer research as to what the consumers feel about sizes or grades or other qualities of products?

Dr. BARRY: There is a bit of crossing over here. Our Consumer Section, I think I can say as a quite accurate generalization, keeps closely in touch with consumer groups and consumer associations. In addition, in our Economics

Branch we do quite a few studies on consumer preferences and consumer reactions.

Mrs. MacInnis: Is there not then the danger of overlapping between your branch and the Nutrition Division of Health and Welfare and possibly some other departments? Is there any co-ordination there?

Dr. Barry: You had better explain this, Mr. Williams.

Mr. Williams: The overlapping is kept to a minimum, I would say, because of joint membership in committees. There are advisory committees to the nutrition committee. The nutrition committee for example of Health and Welfare—we have people on it. I might state in regard to consumer preferences that so far as our Consumer Section is concerned, the section makes very extensive use of panels, taste panels, for a great deal of its work in connection with preparation of recipes, and its evaluation of new products and their usefulness to the Canadian housewife. For example, when dried potato flakes came on the market we had various tests made on the best way of using them and in this work, of course, we would use consumer panels. These might be recruited from the department or from other departments or from consumer associations to assist in the evaluation of these products. Another function is to assist the various commodity divisions in respect of grade requirements and to ensure that these grade standards which we promulgate and which change from time to time do have some basis or connection with consumer requirements.

Mrs. MacInnis: This sounds like a sort of scattery approach to the consumer. Are these panels arranged in conjunction with consumer associations or are they taken out and demonstrated before women's organizations at any time or is there a definite link with consumer organizations like C.A.C.?

Mr. Williams: There is no formal link, but there is a very close link, however, with such organizations.

Mrs. MacInnis: Has that affected the sizes of cans, for example?

Mr. Williams: I do not think I can say specifically that it has, no.

Mrs. MacInnis: Does your branch, when a matter of this kind comes up, communicate with the consumers' organizations and say "Have you got the right size of cans?" If a manufacturer wants a size 5 can accepted, do you say to the consumers' associations "What do you women think of adopting size 5?"

Mr. Williams: Not of necessity. It might or might not be, depending on the problem.

Mrs. MacInnis: On this size 5 or convenience tin—when it was coming up did your branch at the manufacturer's ask for size 5? And did your branch approach the Consumers Association of Canada, or did you think of this at that time?

Mr. Williams: I am afraid I cannot answer that.

Dr. Barry: I am afraid none of us know that precisely, but I expect the answer would be no. May I repeat something I said a moment ago and that is that we do propose to set up a more formal relationship with the Consumers Association or consumer groups in this connection.

Mrs. MacInnis: May I probe for some other soft spots. When you get information or when you give information, as I gather you do get requests for information from consumers, is there any attempt to publish any of this or to try it out on other groups? Is there any attempt to publish consumer reaction any place or do you just bury it?

Dr. Barry: I would hope we would not bury it; I would hope we would deal with it but I would not think we would publicize it.

Mrs. MacInnis: Do you have any periodical or any method of spreading information apart from the panels you referred to?

Dr. BARRY: I mentioned earlier that material was sent to the press, television and radio.

Mr. WILLIAMS: We have a regular publication.

Mrs. MACINNIS: Your Consumer Section was formed, you say, in 1925. What services has it developed since then? How has it developed since 1925?

Dr. BARRY: I do not want to be specific that it was formed in 1925.

Mrs. MACINNIS: Well, whenever it was.

Dr. BARRY: I came to the department in 1925, and my recollection is it was there then.

Mrs. MACINNIS: Can you tell me, say in the last 10 years, what new consumer services have been developed?

Dr. BARRY: They probably have been an enlargement or elaboration of the type of thing they have historically done. For example, we prepare TV scripts for distribution with the coming of importance of TV. I think it has been more in this direction, and also, as Mr. Williams mentioned a moment ago, in latter years we have relied much more than we did earlier in our consumer section on guidance under our commodity people with regard to grade standards and that type of thing.

Mrs. MACINNIS: Have you developed anything along the line of trying to find out what type of research is necessary to find out consumer desires? I gather manufacturers have done all this and made representations to your department, but has your consumer department done anything along the lines of finding out what the consumers themselves want, and research work along that line?

Dr. BARRY: Could I check with Dr. Williams? I referred to our Economic Division doing surveys—we are searching for illustrations here, and our memories are failing us a bit. Mr. Payne has reminded me of an illustration, a survey done by our Economics Division doing consumer surveys. Mr. Payne reminds me of one fairly recent illustration, that of a survey among consumers as to their preference for fat requirement in turkeys. Our grade standards for turkeys have historically required a lot of fat on them. We were uncertain whether this was a fad or something we thought ourselves should be, or whether there was a real consumer desire for this. This was done by our Economics Division in survey work rather than by our Consumer Section.

Mrs. MACINNIS: Would you think it would be feasible to have a research department with consumer representation on it and manufacturers, it you like, with a view to determining such matters as we have been talking about this morning—the still chaotic state of can sizes and maybe confusion about grades and other things? Would there be room for a research function within your department with consumer representation on it?

Dr. BARRY: Would you object if I took a little objection to saying the can size matter was "chaotic" at the moment? I do not think it is.

Mrs. MACINNIS: I am speaking from the standpoint of the little man in the stores. This is the sort of thing women have to contend with when they go into stores, and they do not have the time to look at the fine print on the ounces, size and everything else.

Dr. BARRY: I am not endeavouring to justify completely everything in respect of can sizes, and I recognize some of the problems that have been raised this morning. I just do not think it is "chaotic". I think it was chaotic pre-war.

Mrs. MACINNIS: Can we say "confusing"?

Dr. BARRY: Yes.

Co-Chairman Senator CROLL: Perhaps "slightly chaotic"?

Mr. JOYAL: Less than chaotic, but more than confusing!

Mrs. MacInnis: I firmly believe women do not want competition in sizes. They want to know when they go into a store that there are two, three or four sizes of things that suit different commodities and they can see that at a glance and know what they are getting. Incidentally, they do not want variation in price either.

I would like this question dealt with. Would there be a case for your department setting up a consumer research board or committee which would go into these matters with consumer representation actually on it?

Dr. Barry: May I deal with it in this way: I think—and I can go a bit further, our minister has instructed us that we have to form a liaison with consumer groups. I think there is a case for our consulting with consumer groups as to their reaction to things we do and their ideas as to what we should look into. This would be a consultative group rather than a group involved in the actual work.

Mrs. MacInnis: This would be a consumer organization and not just any woman. If you get any individual women they represent nobody but themselves. If you deal with any other body of people who know what it is about, you have to have representation from a consumer organization.

Dr. Barry: The main one, of course, is the Canadian Association of Consumers, and I think that in any group of this kind they certainly would be represented. Indeed, the Department of National Health and Welfare have such an organization now.

Mrs. MacInnis: Yes, but I am talking about yours.

Dr. Barry: Yes.

Co-Chairman Mr. Basford: What is the staff and budget of the consumer section?

Dr. Barry: I do not have the details here.

Mr. Williams: A staff of about 12 or 15 professional people, with a total staff of about 30. I am afraid I could not give you the budget figures, but we could certainly supply them to you.

Co-Chairman Mr. Basford: I can look it up myself.

Dr. Barry: You can identify it in the Estimates book.

Senator Inman: My questions are a little different. I would like to know if government inspectors go into retail stores at periodic intervals to do any inspecting of the products. I am thinking of one thing, Grade A large fresh eggs marked that way. I have had occasion to do a little shopping once in a while since I have come up here, and a while ago I bought a dozen Grade A large marked "Fresh," two of which I could not use at all they were so bloody. There is something wrong there. They must be marked so that they mean something to the housewife with a large family. I do not say it happens very often, but it has happened to me on two or three occasions. Any housewife knows there is a very great difference in the grades of eggs. Strictly fresh eggs are different from others when fried or poached. It is very difficult to tell the freshness of an egg.

In grading poultry they all seem to be Grade A. I do not know very much about grading poultry, but I did have a little insight into it from a poultry man in one of the poultry houses. There did not seem to be any grading at all; they were all marked Grade A. I saw some that were really Grade B and Grade C.

Then, because I am from P.E.I. and perhaps potato conscious, would it be possible for potatoes in small sacks to be marked with the varieties? There is a difference in how they cook. Some people like them for baking, and that requires a different variety. Some boil them in their jackets, and then there are mashed. Perhaps lots of people who do not know potatoes very well would be bothered if you made too many varieties, but there is a great difference.

Then, when shopping—

Co-Chairman Mr. BASFORD: Senator Inman, I hesitate to interrupt, but I was wondering what the question was.

Senator INMAN: I have three, and I am putting them at the same time and then I will be through, after I have got the answers.

Co-Chairman Mr. BASFORD: All right, thank you.

Senator INMAN: I bought a bag of potatoes and opened them up, and one was as big as a small turnip. I cut it open and it was all hollow, and I did send it back to the packer.

Those are the three questions: the grading of eggs, whether they once in a while go around and check and see whether they are graded properly; the grading of poultry; and the packaging of potatoes.

Dr. BARRY: Yes, we do have an inspection staff continually on retail store inspections. If you purchase eggs in a carton and they are marked Grade A large and you get two bloody eggs, I have to apologize as far as our inspection staff is concerned, but we cannot see them all, obviously. This is an important part of our whole grading and inspection operation. We do retail store inspections as well as at the wholesale level. We do check eggs in retail stores and have them sent back for regrading, to the best of our ability, to ensure you do not run into the circumstances you describe.

With respect to poultry, it is true that the poultry you will see in retail stores is mainly Grade A, for the very simple reason that this is the very best quality and grade. The designation of Grade B is not very acceptable for retail, and the lower grades, B and C, are used mostly for further processing. That is why you do not see them in the stores. They are used for canning and other processing.

With respect to potatoes I shall have to defer to my potato expert, Mr. Eardley.

Mr. EARDLEY: We have on many occasions been approached by individuals land consumers' associations with requests that the variety be included in the marking on the containers. Our position basically is that this is something we cannot enforce. Even potato authorities—men who have to do with breeding—will not give you a snap decision as to whether a certain lot of potatoes are Sebago, Green Mountain, or Katahdin. Therefore, we are not in a position to certify as to the variety. If we say that the variety has to be put on a bag then we will be certifying a bag of potatoes is of a certain variety, and our staff is not competent to say whether they are of a certain variety or some variety like it.

Dr. BARRY: I do not want you to belittle our staff. When you say that our staff is not competent you mean that nobody is competent.

Mr. EARDLEY: Yes.

Senator INMAN: I cannot understand that, because a potato dealer would know the varieties of potatoes, surely.

Mr. EARDLEY: I will tell you of a little incident that actually happened. There was a growers' field day, and it involved, among other things, four or five classes of potatoes. The judges were there, men who knew potatoes and who had a long background in potatoes. One exhibitor who grew only one variety got a placing in three different classes.

Dr. BARRY: What about the large potato in the bag?

Mr. EARDLEY: As far as size is concerned, I will say that it depends upon the size of the container—whether it is a 50, 75 or larger. The maximum size in Canada No. 1 is four inches, and in the smaller sizes it is 3½ inches.

Senator INMAN: This bag contained all sizes. There were many little ones, and then one big one which took up a good part of the bag.

Mr. EARDLEY: Then, those potatoes were not graded. It is only in the last three years that we have convinced the industry that it is in their interests to reduce the size range for certain containers.

Dr. BARRY: Was it in Prince Edward Island that you bought these potatoes?

Senator INMAN: No, it was here.

Dr. BARRY: Were these marked with the grade?

Senator INMAN: Yes, grade A, Canada No. 1.

Mr. EARDLEY: Then they were not graded correctly.

Senator INMAN: But when a consumer buys such potatoes—and they are fairly expensive, as you know—she has a potato that she cannot use. What I am getting at is this, that if a consumer goes out and buys such a bag of potatoes which contains one potato which takes up about a third of the capacity of the bag, she is paying a lot for the rest of the potatoes she has.

I would like to say something about what Dr. Barry said about poultry. He said that Grade A was the best grade. It is not very fair for a consumer to have to pay for Grade A poultry when she is getting only Grade B or Grade C, is it?

Dr. BARRY: Again, senator, if a consumer pays for Grade A and is in fact getting Grade B, then that is due to faulty grading. I would like to make it clear again to the committee that we do endeavour—and we have devoted considerable resources to this—to check the grades of these products at all levels of trading, both wholesale and retail. Obviously, we cannot see everything. I suppose we are something like other law enforcement officers in this respect. Some people do speed, but they are not always caught. If anyone got a chicken marked Grade A, and it was not Grade A, then that is the result of improper grading, and it has not been detected.

Co-Chairman Senator CROLL: There is no need for me to talk about olives or peanut butter because those are not covered, are they?

Dr. BARRY: Olives are covered, senator.

Co-Chairman Senator CROLL: And peanut butter?

Dr. BARRY: No.

Co-Chairman Senator CROLL: As I gathered from Dr. Williams and Dr. Barry, there is a consumer section in the Department of Agriculture and also one in the Department of National Health and Welfare.

Dr. BARRY: Yes, we have a consumer section.

Mr. WILLIAMS: And Fisheries too have a consumer section.

Co-Chairman Senator CROLL: Then each one of those three departments has a consumer section. I suppose there is no need for me to ask if they frequently meet and keep minutes, and circulate the minutes of the things they have discussed?

Dr. BARRY: I do not know the extent to which they keep official minutes.

Co-Chairman Senator CROLL: How often have the three of you meet to discuss consumer problems in this year, 1966.

Dr. BARRY: I am afraid we would not have that information here. We would find out for you.

Co-Chairman Senator CROLL: Is there not anyone here who has ever sat on one of those committees? Surely you have your top people here—

Dr. BARRY: No, we have not got them here. These are the people in the consumer sections.

Co-chairman Senator CROLL: How many people are there in the consumer section.

Dr. BARRY: Twelve to 15, roughly.

Co-Chairman Senator CROLL: How much have those figures changed from 1960 to 1966? Have you added or substracted?

Mr. WILLIAMS: I do not believe the establishment has changed, but the number of incumbents has changed significantly. There was a period up until about two years ago when it was extremely difficult to recruit, and our professional staff was at a very low level. At the present time, however, our staffing is pretty well complete. That is to say, all of our positions have incumbents.

Co-Chairman Senator CROLL: Ten to 12 people?

Mr. WILLIAMS: No, 12 to 15 professional people.

Co-Chairman Senator CROLL: But it has not changed in number over—

Mr. WILLIAMS: Not the basic establishment. The actual number of incumbents has changed because of improved recruiting.

Co-Chairman Senator CROLL: I do not understand that. The basic establishment gives you a certain number of people?

Mr. WILLIAMS: Yes, but we were not able to fill the positions. We were unable to recruit people to fill the positions.

Co-Chairman Mr. BASFORD: The establishment is what Treasury allows. The incumbents are the people who are actually working.

Co-Chairman Senator CROLL: The Army taught me that very early on. I know what the establishment is. Mr. Williams has said that there has been an increase in numbers. He said the establishment remains the same, but they have been able to fill the jobs.

Mr. WILLIAMS: Yes.

Co-Chairman Senator CROLL: You do not know whether that is true of National Health and Welfare and Fisheries?

Mr. WILLIAMS: That is right.

Co-Chairman Senator CROLL: We shall have to have that information. You will also undertake to get us information on how often these three have met in 1965 and 1966?

Dr. BARRY: Yes.

Co-Chairman Senator CROLL: Who is responsible for the cheese situation?

Dr. BARRY: Mr. Goodwillie.

Co-Chairman Senator CROLL: Tell us about that, because it has come under favourable comment during the course of our hearings.

Mr. GOODWILLIE: I am glad to hear that it has received favourable comment.

Co-Chairman Senator CROLL: When did it come into effect?

Mr. GOODWILLIE: We operate under the Canada Dairy Products Act and its regulations, because we have not yet had our regulations finalized under the Canada Agricultural Products Standards Act. Under the Dairy Industry Act, which had been in effect for many years—was declared *ultra vires* in 1949 as a result of the margarine decision—we established standard sizes of packages for butter. They were quarters, halves and one pounds, and multiples of one pound. That has continued straight through to the present time. We established minimum package sizes for cheese in 1937—and this is what you are asking for—and ice cream in 1937.

Co-Chairman Senator CROLL: The sizes for cheese were established in 1937?

Mr. GOODWILLIE: That is right, and ice cream also in 1937.

Dr. BARRY: Excuse me, but that is for processed cheese?

Mr. GOODWILLIE: Yes—well, processed cheese and packaged cheese of this type; some of these specialty types.

Co-Chairman Senator CROLL: Has there not been any recent addition to that cheese in packages?

Mr. GOODWILLIE: We say cheese, and I am speaking of processed cheese, must be in quarters, halves and one pound and multiples thereof. We made one exception a few years ago when we said grated cheese also had to comply. It was shown that a four-ounce package of grated cheese would be too large for economical use, and we made an amendment to allow that particular type to be packed in a two-ounce size.

Co-Chairman Senator CROLL: I have my answer, thank you. Dr. Barry, with regard to the standard pack as we have it, what is the weakness in the act at the present time that could be strengthened?

Dr. BARRY: Our authority with respect to the subject of packaging and marking specifically is limited to the commodities defined in section 2A, and these, as I said, senator, are based on the commodities in which historically we have been involved in the grading way; but we cannot specify container sizes or markings of any agricultural product unless that is included in that definition of "agricultural product". If you ask what is the weakness, there is no weakness in the act so far as dealing with the products defined in the act are concerned which have been historically the ones we have dealt with. If it was desired to extend the principle of standard size containers or markings, for example, to a wider group of agricultural products, then that wider group would have to be included in the definition of "agricultural product."

Co-Chairman Senator CROLL: What is the wider field?

Dr. BARRY: For example, one illustration is cereals, which are not included in the definition. I must say that cereals proper, the actual cereals, are graded under the grain act administration by the Board of Grain Commissioners. One other point is that with respect to any product not required to be graded our authority with respect to it is limited not only by the act but constitutionally to interprovincial trade.

Co-Chairman Mr. BASFORD: Mr. McLelland?

Mr. MCLELLAND: Who carries on the inspection in the grading of frozen eggs?

Dr. BARRY: Our poultry division.

Mr. MCLELLAND: And that is strictly under the jurisdiction of the federal Government?

Dr. BARRY: Mr. Payne is on the poultry division. Do you have any specific question to ask?

Mr. MCLELLAND: What is done with eggs that are rejected from the chain stores and sent back to the original packer?

Dr. BARRY: Our frozen egg regulations have to do with the frozen egg proper. We do not specify that eggs graded as A, B and C could be used for the production of frozen eggs. Our standards only apply to the finished product. That is right, is it not, Mr. Payne?

F. E. Payne, Chief, Poultry Products Branch, Department of Agriculture: Yes.

Mr. MCLELLAND: Do you have any regulations regarding the size of container they can be put in? Are they put up by weight or by the dozen?

Mr. PAYNE: The trade container is a bulk proposition and is used basically 38 to 40 pounds by weight only.

Mr. MCLELLAND: So if people buy these they have to regulate their own recipes according to the weight.

Mr. PAYNE: But frozen eggs are not a consumer item.

Mr. McLELLAND: What inspection does the Government provide so far as the grading of geese and ducks imported into Canada are concerned.

Mr. PAYNE: The grade standard, as with other imported products, must comply to the Canadian standards; they must be up to Canadian standards.

Mr. McLELLAND: How does the federal Government inspect when some of these geese and ducks are not drawn or cleaned, or whatever you call it, when they come on the Canadian market? How do you know what is inside them?

Mr. PAYNE: Are you talking about imports?

Mr. McLELLAND: Yes.

Mr. PAYNE: The bulk of them are all eviscerated of the imported product and are graded before they come in, and when they come in they are immediately checked by our inspection staff. All imports are inspected and must conform to our standard.

Mr. McLELLAND: But you do not carry on inspection as with turkeys which are sometimes Government inspected before being eviscerated?

Mr. WILLIAMS: Are you speaking about health standards or grade standards?

Dr. BARRY: Let me try to clarify. We are referring now to two types of poultry, the older class of undrawn poultry and the newer type of eviscerated poultry. Any eviscerated poultry coming into Canada would, so far as health inspection is concerned, come under Dr. Hetherington's section, which is our meat inspection section, and eviscerated poultry can only come into Canada from plants which meet our approval so far as health inspection is concerned. This is the same in Canada. No eviscerated poultry can move interprovincially unless it passes our inspection.

Now, with respect to undrawn poultry, the older class, which comes under the Health of Animals Branch, our veterinary inspection is responsible for its compliance with our health standard.

The grading for quality is by our poultry division, which Mr. Payne represents. Both sections are involved in eviscerated poultry. In uneviscerated, there is no inspection, because obviously there is no way to examine them from the point of view of an internal standpoint, and there we have quality grades as well, but without the health inspection. This type of poultry is gradually disappearing from the market. Mr. Payne says there is very little undrawn or uneviscerated poultry coming into Canada. If it did come in, we could only inspect it for grade and quality, but there is no health inspection on undrawn poultry.

Dr. HETHERINGTON: There is very little undrawn, but if it did come in it would have to be slaughtered in the plant of its origin.

Dr. BARRY: They have to come from an inspected plant—undrawn poultry too?

Dr. HETHERINGTON: Yes.

Mr. McLELLAND: Has the department been requested to look into the possibilities of smaller containers of frozen eggs becoming a reality? I understand this is being done in the United States.

Mr. PAYNE: Yes, some there are merchandising frozen eggs in small containers. It has been tried in Canada but has never really caught on and did not prove to be a merchandisable item.

Co-Chairman Mr. BASFORD: I should like to ask a few questions. I notice this act was assented to in June 1955. Is that the original enactment?

Dr. BARRY: I think it would be well to clarify this, Mr. Chairman. Historically for many years we have carried on our function in the grading and inspection of agricultural products under several different statutes, a different statute for each commodity. Some time ago Parliament enacted this master

statute which we call the Agricultural Products Inspection Act, under which we have been gradually bringing all our grading regulations. Mr. Goodwillie referred to the fact that the dairy regulations were still under the Canada Dairy Products Act. They have not yet been brought into this, but the regulations to bring them under this act are in process. This is now intended to be the master legislation for dealing with the grading, marketing and inspection of agricultural produce, consolidating a number of statutes which previously dealt with the individual commodities.

Co-Chairman Mr. BASFORD: Has this act, the Canadian Agricultural Products Standards Act, been challenged in the Supreme Court?

Dr. BARRY: No.

Co-Chairman Mr. BASFORD: You might not want to answer this question. Does Canada have jurisdiction to pass this act under its agricultural jurisdiction or under its trade and commerce jurisdiction?

Dr. BARRY: If I may take a moment to go back into history a little, some of our earlier legislation in this total area was challenged. I will use the illustration of eggs again. At one time, under the legislation under which we then operated, we required that all eggs produced, sold within a province had to be marked with a grade name. This was challenged and the high court finding was that that was a matter of property and civil rights. So our jurisdiction then to the grading, labelling and marking of agricultural produce was restricted to interprovincial trade.

As I explained earlier, when this happened and when the federal control over grading within a province was found to be unconstitutional, the provinces then passed legislation requiring the use of the same grades within the province. This was the procedure followed. We administer both provincial and federal legislation. It is a legislative device to bring all the operation under one uniform process.

Mr. WILLIAMS: Not all provinces have passed legislation for all products.

Dr. BARRY: This statute, as it now stands, takes authority over interprovincial movement, for export and import, of course, and, by virtue of provincial legislation, there is authority over intra-provincial movement.

Co-Chairman Mr. BASFORD: You found you were restricted under this. Then this act was brought in?

Dr. BARRY: Plus our authority over the Canadian standard grade name.

Mr. JOYAL: By enabling legislation?

Dr. BARRY: The enabling legislation requires a standard grade name to be used. We have a proprietary right over it and we can specify what must be the usage.

Co-Chairman Mr. BASFORD: I take it that all food products can by definition be classed as agricultural products, if we wanted to do so?

Dr. BARRY: Probably not fish products.

Co-Chairman Mr. BASFORD: If we were about to change the definition in this act of agricultural products, we could bring in and decree and exercise authority over grading and standardization of packaging over all food products, with the possible exception of fish products?

Dr. BARRY: Yes, theoretically, sir.

Co-Chairman Mr. BASFORD: I asked the question because a lot of people are concerned about standardization and ask what can we do. It seems to me that this is what we can do.

Dr. WILLIAMS: I am not quite certain that this is the case. If a product originates in the province and is sold within the province and does not use a national brand, this act would not cover it.

Co-Chairman Mr. BASFORD: That would be, if it were intra-provincial?

Senator THORVALDSON: Could we have a short review of the legal situation, from our counsel? If we have the B.N.A. Act, Sections 91, 92, we will be able to look at it and get some visual idea of the position. I would like to know what the position is and I am sure our counsel could do this for us. They could get us this information much better than we can get it from the witnesses here.

Co-Chairman Mr. BASFORD: I was trying to get it from Dr. Barry—I know he is not a lawyer—and then our counsel could look over the record and supplement it.

Co-Chairman Senator CROLL: Could you give one example of food emanating in the province and staying within the province?

Mr. WILLIAMS: If people in the Province of Newfoundland wish to produce potatoes and sell them to a store in the province and that store sells them to consumers there, there is nothing in our act giving jurisdiction, unless they put on the package "Canada No. 1 Potatoes". Otherwise, the act can in no way prescribe containers, quality or anything else.

Co-Chairman Mr. BASFORD: I understood that. If they want to take the potatoes to sell to a retailer in Nova Scotia, we have complete jurisdiction?

Dr. BARRY: Right, sir.

Co-Chairman Mr. BASFORD: How many or what type of prosecutions have there been under this?

Dr. BARRY: As to our enforcement procedure, and our inspection, whether at the wholesale or retail or shop level, if we find a product is improperly graded, or improperly packaged or improperly marked, our first course is to place that product on detention and require it to be repacked, regraded and remarked. This type of enforcement is happening rather regularly. We are always running into situations where we find a product improperly graded, packaged or marked, we put it under detention, and then we require regrading, repackaging or remarking.

We resort to prosecution when we find persistent offenders. In many cases, for example, in the case of improper grading, it may or may not have been deliberate, due to circumstances.

Our first and quite effective method is to place the product under detention. If that does not achieve results, with respect to any individual dealer or operator, or if it is persistent, we resort to prosecution.

I am sorry, I cannot tell you at the moment offhand how many prosecutions we have had for it under this act within the last two or three years. We could get this information for you.

Mr. WILLIAMS: It would be in the hundreds of prosecutions. We can give you the exact numbers quite easily.

Co-Chairman Mr. BASFORD: No, that is fine. I wanted to get how accurate it was. We have had quite a debate in this committee between national brands and house brands. If you take your Fancy grade, what is the range of quality within the Fancy grade?

Dr. BARRY: Let us take the Fancy grade for processed fruit and vegetables. Mr. Grant, what is the range of quality? Take a specific product.

Mr. GRANT: In Fancy grade, for the various products for which grades are prescribed, we lay down reservations in quite detail what the requirements must be met and as long as these requirements are met then it will be labelled Fancy. If it is better than those requirements, it is still Fancy. In actual practice, it is rather difficult, under normal manufacturing practice, to get a product which is much better than Fancy. If it does not meet the requirements of Fancy, the grade requirements for Choice designations are spelled out, and likewise for Standard.

Co-Chairman Mr. BASFORD: We have been asking both retailers and the makers of private label brands and the makers or processors of national brands, is there a difference in quality; and they have hedged answers very carefully by saying, "No, they are all graded and given the Fancy grade."

Could there be a difference in quality within the Fancy grade in that no peach is the same.

Dr. BARRY: All of our grades for all products specify a minimum standard. In any grade there can be better than the minimum. To this extent there can be a variation. But if we do our job right and inspect properly, there should be nothing below that minimum. As Mr. Grant says, there is a minimum standard for Fancy—it is about as good as you can get. When you get into the lower grades, such as Choice, you could get some variations because there are some above the minimum which do not reach Fancy.

Co-Chairman Mr. BASFORD: So you could have a low quality Choice and high quality Choice?

Dr. BARRY: You could have a range within the Choice?

Mr. WILLIAMS: In answer, in part, we do not have the factual information at the present time on the ranges in qualities between what are known as buyers' brands and packers' brands. We are at the present time working to try to get some factual information for this committee on that. It requires a fairly wide sampling procedure. We have done some preliminary work and have moved into the second stage; and we hope to have some actual physical data available that will indicate that there is or is not a difference between them.

Co-Chairman Senator CROLL: We are very anxious to get it. We must present some report before the Christmas adjournment—if there is such a thing—and this is important, as the chairman has indicated. Would you please help us by sending the information soon, because the lack of it is holding us up.

Mr. WILLIAMS: We will push on with all possible speed, sir.

Co-Chairman Mr. BASFORD: When people are concerned about standardization, what they are really concerned about is to allow a proper basis of comparison between one product and another or between one size and another, so that there is competition at the price level. I am wondering about Table II, which is Containers for Frozen Fruit, Vegetables, et cetera. Items 4, 5 and 6 are all vegetables of one sort or another, yet they provide sizes of 10-ounces, 11-ounces and 12-ounces, which makes it very difficult to compare the price of lima beans and cauliflower, for example, where the housewife wants to economize.

Dr. BARRY: In this case the situation is that in all these vegetables, I understand—you will correct me if I am wrong, Mr. Grant, the size of the container is the same. The same size container will hold different weights of different vegetables so that, while the number of ounces of the different vegetables varies, it is all in the standard size containers. This avoids using different size containers for different products. In other words, it goes by net weight, not by the size of the container. These are paper containers for frozen vegetables.

Co-Chairman Mr. BASFORD: We run into the same problem with breakfast foods: should we use a standard size package or a standard size weight. I notice in Tables I and III that glass containers are invariably expressed in multiples. For example, just looking at one small item, the volume designation for glass containers for maraschino cherries includes six, 12, 16, although that is not a multiple, of 32, 64, 128. There are six different sizes. You can look at the 16-ounce size or the 32-ounce size and you can see if one is cheaper than the other.

Dr. BARRY: Yes.

Co-Chairman Mr. BASFORD: This is not true of tin cans, where you have standard sizes of 10 ounces, 15 ounces, 20 ounces, 28 ounces, 48 ounces and 105 ounces. It is very difficult to compare the per ounce price between a 48-ounce can and a 28-ounce can.

I realize it would be rather revolutionary, but could some work not be put into trying to determine those can sizes as multiples of each other?

Mr. GRANT: Well, sir, I think the basic problem was investigated in 1940, when standard containers were first prescribed. What they attempted to establish at that time, so I have been told, was to get something as close as possible to five, 10, 15, 20, 30 and 50, which were multiples. They could not come up with those exact volumes, so they came up with the nearest volumes possible out of the cans that were being manufactured at the time. It is a fairly costly operation to change can-making machinery over to produce different can sizes, and this is why at that time they stuck with these sizes that are not exact multiples.

Co-Chairman Senator CROLL: Do they have the same sizes in the United States?

Mr. GRANT: They have all these sizes plus a lot more, sir. They do not prescribe standard size containers there.

Co-Chairman Mr. BASFORD: I realize it would be rather revolutionary to try to change this situation, because it would require a great deal of capital investment. But surely that should be our objective so that people can compare the 20-ounce can and 40-ounce can, for example, to see which would be the better buy, rather than try to compare the 20-ounce and 48-ounce cans, which would require everyone to be a mathematician.

Dr. BARRY: I have gone to retail stores and tried to make calculations myself, Senator, and I have found it difficult.

Co-Chairman Mr. BASFORD: In our report we might suggest that you do something along that line.

I would like to make a suggestion. At page 160 of the regulations, you show how the volume designation must be marked on the can. Is it beyond belief that right beside that volume designation we could require that there be another blank circle in which the price would be marked?

Dr. BARRY: If that is done, at what level would the price be marked?

Co-Chairman Mr. BASFORD: At the retail level.

Dr. BARRY: In other words, you wish to standardize the place where the price would be shown?

Co-Chairman Mr. Basford: Yes. That might be something you could refer to your consumers' division for thought and for study.

Co-Chairman Senator CROLL: It would mean that the price would be marked once, not three or four times.

Dr. BARRY: I have not thought about that, sir.

Co-Chairman Mr. BASFORD: It is something you might refer to your consumers division. We will go back to Senator Carter. I apologize for taking so long, senator.

Senator CARTER: That is all right. Mr. Chairman, you have convered one of the questions that I had in mind, but I am a little puzzled at the answer which was given to Senator Croll earlier. I think the same question was asked by Mr. Allmand earlier this morning. If I understood what you told Senator Croll, the weakness in this act is the limitation of the definition of "agricultural products".

Now, this is what puzzles me: "agricultural product" means livestock, eggs, poultry, milk, vegetables, fruit, honey and maple syrup and it ends up "products thereof".

Now, corn is one of the products included in the definition. Why are corn flakes not included, therefore? Surely corn flakes is a "product thereof". It is a product of corn.

Dr. BARRY: We would regard corn flakes as a cereal rather than as a vegetable.

Senator CARTER: But it comes under your act.

Dr. BARRY: Well, we would not have interpreted corn as being a vegetable. It is a cereal.

Senator CARTER: But it is an agricultural product. It does not have to be a vegetable. It is an agricultural product.

Dr. BARRY: But Section II defines "agricultural product" to mean livestock, including fur-bearing animals raised in captivity, eggs, poultry, milk, vegetables, fruit, honey and maple syrup and products thereof and leaf tobacco. "Products thereof" refers to eggs, poultry, milk and so forth. That is the interpretation there.

Co-Chairman Mr. BASFORD: When corn becomes a canned vegetable you regulate it.

Senator CARTER: Surely corn is sold as a vegetable.

Dr. BARRY: That is right. Corn becomes a vegetable.

Co-Chairman Mr. BASFORD: I think you had better call in the Department of Justice on that one.

Dr. BARRY: I would have thought that corn flakes was a cereal rather than a vegetable.

Senator CARTER: How can you treat corn as a vegetable for certain things, when, for other products, you do not consider it a vegetable?

Senator THORVALDSON: I do not think we need to call in the Department of Justice on this. Surely corn flakes are a product of corn and corn is a vegetable. It is as simple as that.

Co-Chairman Mr. BASFORD: Except that Dr. Barry thinks it is a cereal.

Senator CARTER: What about potato chips?

Dr. BARRY: Potato chips would be a product of potatoes and would, therefore, be a vegetable, yes.

Senator CARTER: So you could regulate potato chips but you could not regulate corn flakes.

Dr. BARRY: Depending on whether corn flakes is a vegetable or a cereal, sir, which might be debatable.

Senator CARTER: You have decided here in this act that it is a vegetable and you regulate it under the act.

Dr. BARRY: We regulate it in the can as a vegetable.

Senator CARTER: Putting it in the can does not change the nature of it.

Dr. BARRY: I have to grant you that.

Senator CARTER: What about fruit juice that is brought in in bulk and repackaged? Do you inspect that or do you have any control over the grading of that?

Mr. GRANT: I presume, sir, that perhaps you are referring to fruit juice concentrate that is brought into Canada and then reconstituted. In actual fact, there is very little single strength fruit juice brought in and repackaged. If either apple juice or tomato juice, which are the only two juices for which we prescribe grades, were brought in, then, yes, they would have to meet our grade requirements. If a citrus juice such as orange juice comes in single strength, we prescribe containers and label requirements for that, but if it is a concentrated

product and is only reconstituted here, or is sold in concentrated form, then this is under the jurisdiction of the Food and Drug Directorate.

Senator CARTER: You have no say as to how much water goes into the concentrate?

Mr. GRANT: No.

Senator CARTER: Do you know, of your own knowledge, if the food and drug people have anything to say about it? Do they regulate the amount of water that goes into the concentrate?

Mr. GRANT: I hesitate to speak for the Food and Drug Directorate, but I know it is a subject to which they have been giving a lot of attention. I can say that much.

Senator CARTER: There is just one other point, Mr. Chairman, which I think, for the satisfaction of the committee and for the benefit of people who read the printed record of the proceedings of this committee, we should have as clear an answer as possible to a question Senator Croll raised some time ago. We have had a number of the canners in front of us, and in every case when we have raised the question of the number of package types, they have held up their hands and said, "We have nothing whatever to do with that. We are controlled and told what to do by the Department of Agriculture. They have regulations, and all we do is just meet the regulations which they have laid down." In other words the impression I got was that if there was anything wrong with these sizes, it was not their fault; it was the Agriculture people who were to blame. Now, I may have got the wrong impression—

Co-Chairman Senator CROLL: Federally and provincially—they didn't limit it.

Co-Chairman Mr. BASFORD: What they said was that they would regulate it.

Senator CARTER: That is the impression I got. I cannot speak for the other members of the committee. But from what we have been told this morning, the picture is not quite like that. What you have done is to regularize the sizes that industry had been using and the new sizes you have granted at their request.

Dr. BARRY: I would not like you to have the impression that we have granted new sizes every time they were requested.

Senator CARTER: No, but the new ones that have come into use have been granted not on your initiative but on the initiative of industry.

Dr. BARRY: I think that is a fair statement, yes.

Senator CARTER: I did not have that impression from the evidence given by the representatives of the industry. The impression was created in my mind, and I want to have it corrected if it is not correct. Therefore if there is any blame it isn't a question of the Department of Agriculture saying to industry "You have got to use this particular size."

Dr. BARRY: We said that they would have to use these particular sizes—

Senator CARTER: But you did not introduce them; you only regularized them and limited the numbers?

Dr. BARRY: Yes.

Co-Chairman Mr. BASFORD: Mr. Urie.

Mr. URIE: Dr. Barry, you will have gathered that one of the prime considerations of this committee is to simplify for the consumer the various package sizes, designations and so on. Now my question has a preamble which is fairly lengthy, but that cannot be helped. I understand that the various products have various designations; for example, with eggs there is Grade A1, B and C; beef has red brand, blue and brown; in cattle you have good and choice, and in pigs there is A1, B1, C and D. Why is it not possible to eliminate this proliferation of terms in various products and try to standardize terms as one of the turning points in this simplification process?

Dr. BARRY: As I said earlier, this has been a point of continuing debate and discussion and we have organized within our department a group where we are trying to resolve it and to arrive at a standard type of designation. Some of these are not consumer items like in the case of cattle where you have choice and good. We have to agree there is—

Mr. URIE: Has this study been done or is it continuing?

Dr. BARRY: It is quite active and has been going on I would think possibly a year or 14 months.

Mr. URIE: Are they nearing a stage where a recommendation could be handed to the department?

Dr. BARRY: We have had one preliminary report from them making several recommendations and at the present time they are trying to come up with a single recommendation and later with a series of recommendations.

Mr. URIE: Following which do you require an act of parliament to implement these changes?

Dr. BARRY: This would be done by order in council.

Mr. URIE: There may be far more of these than the ones I mentioned, but these are the ones of which we have some knowledge.

Mr. WILLIAMS: There is one thing I might say in respect of this which on the face of it looks like a very simple problem. What we would have to say is that everything will be called red brand, blue brand or green brand or should be classified as A, B, C or 1, 2 and 3. However, there are various differences because of the nature of the trade. There is a question of large stockholdings or perhaps I should say large holdings of inventory. But probably one of the major difficulties is the fact that different commodities reach the grades with different facility. For example, there will be no problem so far as butter is concerned in using the appellation "first" or No. 1 or A or something of that nature because about 97 or 98 per cent of the butter graded in Canada can match up to this grade. The rest is easily absorbed in commercial channels, that is to say manufacturing channels. But there are problems in relation to other produce. For example, in some years it may not be possible for anybody to pack any fancy peaches because the peach crop may be such that it is impossible for anybody to reach that top grade. That means that not only in Canada but in the export market the best one can produce is Grade B. It still might be the best peach available, but it would carry implications in regard to its sale in the export market and domestically. Many would find this undesirable. It is the effort to solve this problem that takes the time.

Mr. URIE: But the problem still exists even using different terminology.

Mr. WILLIAMS: Yes.

Mr. URIE: We are trying to simplify terminology?

Mr. WILLIAMS: We are trying to get a terminology that will be accepted across the board and still be standard.

Mr. URIE: I would like to address this question to Mr. Goodwillie. Dissatisfaction has been expressed on various occasions with the various grades of or lack of grading of, for example, Canadian cheddar cheese. Is it possible to establish meaningful grades for cheddar cheese and also, while I am about it, for ice cream?

Mr. GOODWILLIE: When you ask about the possibility of establishing acceptable grades are you thinking of the retail level or the wholesale level, because at the wholesale level we think we have acceptable grades.

Mr. URIE: At the retail level.

Mr. GOODWILLIE: This is extremely difficult. We looked into this four or five years ago. We wanted to see if we could come up with a workable grading system for cheddar cheese at the retail level. Our study indicated that it would be extremely difficult because of the varying tastes of the individual consumers. What may be a nice old cheese to you may be completely different from what it is to Senator Croll. This is very true of Canadian cheddar cheese. You can call it "Old Nippy" or "Old Mellow".

Mr. URIE: What are your wholesale designations?

Mr. GOODWILLIE: Canadian first grade, second grade, third grade—and below third grade.

Mr. URIE: With reference to age or mildness?

Mr. GOODWILLIE: That's right.

Mr. URIE: What the consumer gets in the retail store is a designation of "very old" or "mild" or "medium"?

Mr. GOODWILLIE: That's right.

Mr. URIE: He does not have any idea as to the grade that has been given at the wholesale level?

Mr. GOODWILLIE: We could put on a grade. But let us say we put on "Canada first grade" on an old cheese and it stayed around the store for a long time and then you bought it and found it had gone off—what would be the situation then? As you know, cheese ages from six months to two years. If it is around the store or warehouse for a long time, this can make a difference. This is very different from butter which moves quite quickly in the stores.

Mr. URIE: So you think this is an insurmountable problem?

Mr. GOODWILLIE: I would not say it is insurmountable, but there are many difficulties involved.

Mr. URIE: Is this question still being studied?

Mr. GOODWILLIE: We are continually studying this question because we know the problem with regard to cheddar cheese being sold to the consumer as such at the retail level. The real problem, as I said, is the problem of turnover and arriving at a designation or a definition to meet everybody's taste.

Mr. URIE: Well, then, what about ice cream? You have standardized packages?

Mr. GOODWILLIE: We have standardized packages and standards of composition. We do not grade ice cream as such. We considered this a while back, but, as you know, ice cream does not enter into interprovincial trade to any extent and therefore our jurisdiction is limited. So the question arises how does one grade ice cream.

Mr. URIE: It must be by composition.

Mr. GOODWILLIE: We have composition standards—they must all meet minimum standards.

Mr. URIE: There is nothing on the package on the shelf which indicates to the consumer what the composition is. As I understand it the only way the consumer can tell he is buying a first or second grade ice cream is by the difference in price.

Mr. GOODWILLIE: That's right, brand is also important.

Mr. URIE: He pays 50 cents for one package and 39 cents for another and that indicates to him that the 50-cent package is better. He does not know the reason. Is there any possibility that a problem of that nature can be resolved by the department?

Mr. Goodwillie: There are two things that enter into the cost of ice cream: if it is a fruit, or flavouring like strawberry, or chocolate, or the butterfat content; and both are very important in the cost. You take some of your premium brands which sell at 45 cents. They probably have a butterfat content of 17 or 18 per cent, whereas some of the cheaper brands will be down to the minimum of 10 per cent butterfat content.

Mr. Urie: How does the consumer know that?

Mr. Goodwillie: The only way she knows at the present time is by the price or brand.

Mr. Urie: Trial and error is the only answer, I suppose. Do you think it is reasonable to expect she should be entitled to know the composition of the package of ice cream that she buys by way of labelling? Maybe she would never look at it, just as maybe she does not look at the size of contents of cans she buys today either?

Mr. Goodwillie: There might be one or two ways this could be done, but I hesitate to mention them at the present time.

Mrs. MacInnis: Would there be any resistance from the manufacturers to mark the butterfat content on the package?

Mr. Goodwillie: I think there would be more resistance from the consumer because she does not want a lot of fat.

Mrs. MacInnis: Supposing they were marked by butterfat content, that would change quite a bit the buying habits, because the consumer would not consider a larger butterfat content as desirable as a lower butterfat content.

Mr. Goodwillie: If you are concerned about fat, why do you not buy iced milk, which is about 3 per cent fat, which is frozen skimmed milk almost.

Mrs. MacInnis: Would there be resistance from the manufacturer?

Mr. Goodwillie: I do not think so.

Co-Chairman Senator Croll: Why do you not get something like diet ice cream on the statute?

Mr. Goodwillie: We have this in some stores.

Mr. Joyal: Dr. Barry, this information that you and your officers have disclosed is extremely important as far as the consumer is concerned in knowing what she is buying.

I take it from what you have said about your consumer section, that the consumer section has been pretty much involved in preparing various recipes for foods. I take it the consumer section in Health and Welfare is probably busy in trying to sell a more balanced diet. Fisheries, I suppose, are trying to get the housewife to serve more fish in tastier dishes. But I do not suppose anybody in your department has ever been concerned in showing the consumer how to shop. There is no such service in your department, I take it?

Mr. Williams: We have official publications directed to the consumer. There is "Buy by Grade". I would be glad to provide samples to the committee if they have not already been provided. It is a publication put out by our consumer section that describes these various grades in quite some detail and it recommends uses along the lines I spoke of.

Mr. Joyal: What is the distribution of this publication—how and to whom is it distributed?

Mr. Williams: It is distributed free, to start with. When our people go to meetings they distribute it; and, in addition, it is listed in the Queen's Printer's various lists indicating where it can be obtained. And at various times we include it in material we send out to mass media, saying, "If you want this bulletin, drop a note to our information division".

Mr. JOYAL: Has there been anything done in terms of recent developments? This committee is well aware of the increasing rate of rise in food prices as against the general price index. Have you reacted to this problem?

Mr. WILLIAMS: Our consumer section has reacted to the extent they have done a considerable amount of work in respect of more use of the cheaper cuts, but this is nothing new. It has always been a problem in our agriculture in general to move the cheaper end of any type of product. For example, they will do a considerable amount more work on how to use chucks of beef than they will on how to use sirloin steaks because, in general, people are more apt to be disappointed if they buy a chuck of beef and do not prepare it properly. Therefore, this would react in terms of consumption and against agriculture. Over the years people have tended to emphasize the use of cheaper—or, I should say, more economic rather than "cheaper" grades.

Mr. JOYAL: In all these publications and findings on this question of what we call consumer education, how much co-operation are you getting from your media—newspapers, radio and television; or have you to pay for insertions?

Mr. WILLIAMS: I would venture to say that the demand is the other way. They are putting demands on our group pretty well all the time, particularly the newer media—not so much the daily press, but the newer media.

Mr. JOYAL: Therefore, would your plans be to create or at least expand this service and perhaps, in terms of what is going on currently, to provide more of these programs on consumer education when it comes to shopping habits or particular price or quality of cuts of foods that she would buy generally?

Mr. WILLIAMS: That is correct, and at the present time they are working on the preparation of a major exhibit that will be used at fairs and exhibits across Canada during 1967. Of course, as you are aware, these things have to be planned in advance, and this will feature shopping habits.

Co-Chairman Mr. BASFORD: The meeting is adjourned. We meet again at 3 o'clock this afternoon. I want to thank Dr. Barry, Mr. Williams and his officials for a very full and informative morning. Thank you again for preparing this in a hurry.

The meeting adjourned.

Upon resuming at 3 p.m.

Co-Chairman Mr. BASFORD: Honourable senators and members, this afternoon we have as our witness, Professor Borje R. V. Kragh, head of the National Institute of Economic Research of Sweden. I am very grateful to the professor for coming here this afternoon. He is in Canada for a few days and has consented to appear before us.

I am also grateful to the Swedish Ambassador and staff of the embassy for assisting with Dr. James in making the arrangements for this afternoon.

Our guest was born on April 11, 1918. He was appointed assistant professor at the University of Gothenburg in 1947 and received his Ph. D. at the University of Uppsala three years later.

For several years, between 1952 and 1956, he was a staff member of the United Nations' Secretariat in New York in Economic and Social Affairs and later, in 1957, he took part in a United Nations mission to Mexico, and a similar mission to Chile in 1962.

From 1958 to 1962 he was director of the Department of Economic Affairs, Ministry of Finance in Stockholm. In 1962 he was appointed professor of economics at the University of Gothenburg.

After having been the acting director of the National Institute of Economic Research since 1962, he was appointed its head in 1965.

He has participated in two missions for the OECD, the Organization for Economic Co-operation and Development, one to Spain in 1964, and another to Greece in 1965. This year he went to Argentina as a member of a mission sponsored by the Harvard Advisory Service.

This afternoon Professor Kragh comes to us as head of the National Economic Research in Sweden which I understand is not exactly the same but something comparable to his being the Swedish John Deutsch. To the professor it is quarter past 10 p.m., rather than quarter past 3, so I do appreciate his being here this afternoon.

The profession has a short statement to make, and then we shall be open to questions.

Professor Borje R. V. Kragh, Head of the National Institute of Economic Research of Sweden: Thank you, Mr. Chairman. Ladies and gentlemen, I am not quite sure as to whether it is worth while your spending your time coming to listen to me and to ask questions which I may not be able to answer. But I shall try. I would like to begin with a brief description of the experience in Sweden of price stability or even inflation, I might call it. It might be useful to you to compare a country which is quite similar in many respects to Canada as far as resources go, and political stability and relative importance of exports, economic growth and so on which nevertheless has quite a different experience in the field of price development, which I understand is the main theme for this afternoon.

Just to give the general idea about the difference, I looked up the Canadian figures for price development—consumer prices—in the years 1959 to 1965, and I found that there was an 8 per cent increase over this six-year period. This from a Swedish point of view is quite an amazingly stable price development. We had during the same period 25 per cent increase, that is more than 4 per cent per year on average. If you take out the consumer price index the increases caused by indirect tax changes we get a somewhat lower figure, but it is still from 19 to 20 per cent which is more than double your rate of increase.

You will understand, therefore, I was not very much impressed when I heard yesterday the Governor of your central bank complain about the price development in Canada. He said he saw no comfort in comparing prices with other countries, and I understand him to some extent because as the United States is the largest trading partner of Canada, you, in the first place, have to look at American price development. It is a little lower than Canada's, but from the European point of view prices in these two countries are much lower than the countries of Western Europe.

Sweden has to look to other countries for comparing prices and price development, and are not so much scared by developments in North America. Generally in Western Europe the price increases have been higher than in North America. Sweden is in the upper quarter bracket compared with the price developments in other Western European countries.

The Governor said that a country which had this rate of expansion and wages is characterized as being in the ultimate advanced stage of expansion. Well, using this standard Sweden has been in the ultimate expansive phase for a decade now. The difference between Canada and Sweden in this respect is that we have and have had for a long time an acute shortage of manpower. We are all the time pressing against our resources and having the ambition of full employment to press against resources almost inevitably also means some price increases. This too might not be an acute problem for Canada which I understand

still will have considerable increases in manpower to draw upon for increasing total production. But we have rather a diminishing labour force; the growth of the people in the productive ages is stagnating. We are envisaging a shortening of the working hours and lengthening of vacation time, so actually the effective supply of manpower will rather diminish over the next years rather than increase, but nevertheless Canada might in the foreseeable future have to encounter this problem too.

The increases in your labour force are diminishing. You will probably gradually come to this problem too. As far as I understand it the United States has already encountered this problem. The supply of skilled white labour force in the United States is almost exhausted and therefore wage costs in the United States have been increasing. We judged from the European horizon that the two series of wage increases will converge in the not too far distant future and that will make our problems smaller than otherwise, but there are nevertheless problems.

They seem to be acute just now, or in the very last few years. Perhaps I should describe shortly why the problem has not come up earlier.

Back in 1949 we had a devaluation as you had in 1962. It seems to have played quite an important role as far as this wage and price problem is concerned.

We devalued certainly more than was necessary at that time. The Swedish crown was undervalued in the fifties and there was quite a leeway for the profit margins which later on could be drawn upon to dampen the effect on prices of increases in wages.

Furthermore, in the fifties, the Swedish export industry may be said to have been the wage leader. That is, wage increases in Sweden were geared rather intimately to the competing export prices in our main export markets, and, of course, that helped a lot to keep our export industry competitive.

The wage negotiations usually started with the engineering industry which is by far our main export industry, and when they had reached their agreement, then the others followed rather closely in step.

So these two factors helped us over the fifties: the devaluation at the beginning of this decade, and the role of the export industry as wage leader. But over the decade the profit margin started to erode and to shrink. Furthermore, the sale of export industries was taken over by the construction industry. I believe this is what happened here in Canada too. That meant that the export industries were exposed to wage costs which were not consistent with the increase in the export prices in our markets. They had to carry an increasing part of these costs by their profit margins, and although they had been building up wide margins in the fifties, these gradually became exhausted.

I can give you some figures for the development in the sixties of increased wage costs. Nominal wages increased by some 9 per cent a year in the total industry as well as in the export industries. Productivity increased quite fast, some 6½ per cent a year, which meant that wage costs per unit, or unit wage costs, increased by some 2½ per cent.

Now, both wage cost figures and the productivity figures are quite higher than in Canada. A wage cost per year of 9 per cent, over such a long period of time, is unusual I think. But, also, the productivity figure of 6½ per cent, that is, production increase per wage earner or worker, is quite a high figure also. The 2½ per cent increase in unit wage costs compared, however, unfavourably with export prices which did not rise that fast. The export prices increased some 1½ per cent per year, which meant there was 1 per cent difference. The costs increasing 2½ per cent and the export prices 1½ per cent gave a difference of 1 per cent which had to be carried by the profit margins.

On the other hand, the consumer prices, domestically, increase by 3 per cent per year at least, not counting the changes in the income taxes, so that they increased at double the rate of the export prices. So there were still profits in the home market.

Perhaps I should comment a little on this increase in productivity because that has been one of the main weapons for Swedish policy in the price field. It is very important to neutralize wage cost by some comparable increases in productivity.

Much of the emphasis has been placed on these policies in the fight against price increases. There are two arms of this policy of keeping down costs by increasing productivity, and one is to stimulate investments. There again, I think we see quite a difference between Sweden and Canada in that in the Swedish investment field the share of investments in total production is at rather a higher level than in Canada. Investment in Canada is 27 per cent or 28 per cent of the G.N.P., whereas in Sweden it is above 30 per cent. This increase in the investment means that the capital stock, the productive stock, is quite modern. There is a rapid turnover not only within each industry branch modernizing its equipment, but also a rather fast change in the whole structure, a movement from stagnating or receding industries to the advancing dynamic industries.

This is facilitated by the second arm of the productivity policy which concerns manpower policy. In the applied economic policy today this is perhaps the one field in which Sweden might have something to teach other countries. Of course, the field of employment policy is complementary. But if you just push for full employent you might make your employment structure too rigid. You have to combine it with facilities for transferring resources from the receding industries to the advancing industries. That is the job of the Swedish Labour Market Board, which has considerable money and training facilities for taking manpower from the receding industries to the dynamic ones.

You cannot explain all productivity increases in Sweden by the capital decumulation. We have made some estimates of this relationship relating productivity to investment, but there is a residual, which I understand to a very large extent can be explained by the productivity increases caused by transfer of manpower from lower to higher productivity branches. Again, if you compare Canadian estimates of the same kind, it seems that the part of the productivity increase accounted for by this residual is not as large as in Sweden. Those are two important explanations, I think, of the high productivity which has allowed Sweden to keep its high rate of increase in nominal wage costs much above the Canadian rate of increase: The high investment quota and the manpower policy. However, we have reached the stage where we have not only full employment but rather over full employment, and this situation exploded in a way in 1965 when we had a very overheated domestic economy, domestic demand was allowed to expand at a high rate above the capacity to increase production and the balance was taken out of our external trade. The external trade deteriorated greatly in 1965. Incidentally, this in the last instance in Sweden is the criteria for judging the price development. External imbalance is a warning that the price development internally has been driven too fast, and that we have allowed costs to increase too fast and that will affect our external account.

We have had an external account which has been balanced since 1949 up until 1965 and there is quite a clear relationship in the latter year between the expanded domestic demand internally and what happened to the external balance. It is not so much that Sweden became non-competitive in our export markets, it is rather that the capacity for exports was not there. There was a re-directing of our deliveries from export markets to home demand.

Much the same has happened a long time in the United Kingdom. As soon as the United Kingdom comes up with something that has the resemblance of a boom exports are diverted to the home market.

Sweden, fortunately, has a lot of products which cannot be consumed at home, such as timber, and iron ore. In the long run, of course, the labour force might be taken from these industries over to construction industries and domestic production. However, in the short run that does not happen with our staple products. But diversion of goods happens in the short run in, for example, the engineering industries. In 1965 when domestic demand was allowed to run ahead then those export goods were diverted into the home market.

You can follow almost product for product what happened. In the paper industries, for instance, there was an increased home demand for products of paper, and paper exports fell off. The home demand also showed on the import side. When at home, construction was expanding the import of raw materials for construction purposes expanded, too. From both sides, therefore, there was a clear deterioration of the external balance. That was the first time in decades that we became really alarmed about our external situation reacting to the internal situation. We had to dampen the demand at home, because wages reached a record level of increase in 1965. Not only the negotiated wages but also the wage drift increased very much. Therefore the policy was changed in 1965. In 1966 we had a reverse of the development and again it was quite obvious that economic policy changed the situation rather rapidly.

Domestic demand was cut down by different methods and the external balance was improved considerably not so much because of the competitive situation in terms of cost changes, but simply in terms of delivery capacity; the periods for delivery or delays in delivery shortened considerably.

Our exports increased again but on the other hand imports fell off. That is quite a lesson we learned in those two years 1965 and 1966. But certainly this problem will be with us for the next few years to come. It is quite clear we are out of the rather calm waters we have been sailing in before. And this is again because our labour market situation will stay tight. Labour will be very scarce; we will have to invest as before, but even at an accelerated rate. What we lose in manpower we have to make up for in more productivity. So in Sweden the rate of increase in investment is expected to be raised in the next five years even above the present level. That again creates problems regarding consumption. We estimate that investment must increase 5 or 6 per cent corresponding to some 4 per cent in production. Private consumption cannot then increase more than 3 per cent. It is a very open question—perhaps I should not put it that way; perhaps I should say it is unquestionable—that consumers will not be satisfied with an increase of 3 per cent, so there will be a considerable gap and it is still not known how economic policies will be able to attack this problem.

Basically, of course, there is a conflict here between the way resources should be allocated according to the plan. Resources will have to be allocated to a large extent to investment, and there is no disagreement about the need for this distribution of resources or for their allocation. But the wage negotiation process does not take this into account. There is rather free bargaining in the labour market; trade unions push their claims as far as they can within certain limitations, of course. But lately there has been a little sharpening of the situation in the labour market. The large trade union is not so monopolistic as before and the others are not following so closely in their steps. Other groups like academic groups aim at more favourable settlements and push their claims. Then the trade unions become dissatisfied with the results of their agreements when they see that other groups of the population have got more. There is a little dissatisfaction and bitterness and sharpened competition between the parties on the employee side. I would say that the struggles are just as sharp as between the different

groups of the employees as they are as between the employers and employees. The outcome of this process is that the wage increases will go beyond any productivity increase. So the demand for consumption will be too high compared with what there is available to private consumption, considering the need for increases in investment.

It will have to be solved somehow by dampening private consumption or by changing targets and giving less to investment and being satisfied with a smaller gross national product. The wage negotiating will also somehow have to be co-ordinated through solidarity between the bargaining parties. This concerns all different kinds of employees.

I don't know if I should go a little into the details about the kind of price policies we pursue. As I said we do not have an income policy. The partners in the labour market are left to themselves. It is an agreed principle that the Government should not participate in or affect the negotiations in the labour market; not even to the extent of giving guidelines for the scope of wage increases. In that context perhaps I should say that all the partners or the parties in the labour market are quite aware of the limitations. They just cannot agree upon which one should be the one to get the small increases and which to get the larger increases. They are quite aware that the maximum increase in average wages is determined by the prospective rate of growth. The employers, of course, forecast a rather low possible rate of growth and low possible wage increases. The employees take the opposite position of a higher rate of growth and better international prospects and so on but there are limitations to the different views of the possibilities—limitations inside which negotiations can go.

In this regard labour market partners are using the same terms and the same definitions. It is a question of evaluating the economic situation and the problems. In fact the actual rate of growth will usually be in between the respective estimates of the partners. It is always the same: the employees are optimistic and the employers pessimistic. The Government has a "hands off" in this and therefore also no possibilities of influencing directly the prices and cost development. I have talked about the indirect ways in stimulating investment and by pursuing effective manpower policies. There have, however, been some efforts to work directly on prices. We have what is called a price and cartel board, but that is not a very developed instrument. The general principle is not to have any complete prohibition against price agreements such as directives for prices set by enterprises, common sales organizations, price lists, target prices, and so on. It has been contemplated that there should be a prohibition for these practices. But a prohibition always must provide escape clauses which might be quite numerous. It can be shown that some price agreements can add to the growth of the economy, but these are exceptions. Nevertheless, it is not a good law if you have to have too many escape clauses. The present law can rather be said to be a law against misusage of this kind, and thus law recognizes that some practices may be useful. The law thus is against misuses, but, again, the reinforcements are not very strong. It is more in the field of public relations.

The Prices and Cartel Board makes surveys of typical price areas, and they publish findings concerning prices. They circulate their findings in such a way that they give the various prices for identical products. As a matter of fact, they have found in many cases rather conspicuous price differences. I remember that one survey concerned potato prices in a narrow region, and the board found that the potatoes of inferior quality had the highest prices and the best potatoes the lowest prices. Of course, this disturbed public opinion. Such a thing has happened in other areas as well.

However, recently there has been a committee working on these problems and it brought out its report a year ago. That report, which is still under study concerns more intensive control of prices and intensification of the work of the

price and cartel board. First of all, it should work to remove obstacles for free competition. It should, for instance, act against any stipulations given in connection with deliveries. There have been occasions of wholesalers or retailers complaining that they have been shut off from deliveries of the producers and manufacturers because they did not want to comply with the target prices set by the producers, or they did not want to combine the product with a certain kind of service or package or whatever it might have been.

The role of the Prices and Cartel Board should be to give the consumer a fair and explicit choice between a combination of price and service so that the consumer will have the knowledge and the possibility of choosing a low-priced product with less service and less adornments and less packages, and so on, and a high-priced product which is somewhat better equipped and which might have more quality or might even be delivered to the steps of the consumer's home and so on.

The main thing is that it has to be made known to the consumers that there is a choice and what kind of choice they have. This board should go into the matter by publication and by campaigns of different kinds. And in this connection the notion of target prices should be abolished. The enterprisers should not be allowed to give rigid directives concerning target prices at which a product should be served at the retail level. Rather, they should be made to set *circa* prices.

Mr. JOYAL: A *circa* price? Would that be an approximate price?

Co-Chairman Mr. BASFORD: We have suggested prices here. We have suggested retail prices. Would that be the same thing?

Professor KRAGH: It would be something like that, although that word, I believe, is a little stronger, because if you have a suggestion, it might be a harsh one.

Co-Chairman Mr. BASFORD: That is exactly our problem.

Professor KRAGH: *Circa* prices are not supposed to suggest anything strongly. It is just to give some kind of guideline. A *circa* price also means that it is not a fixed price, but is a price with wide margins in both directions and it is up to the choice of the retailer. At any rate, there should be something against the quite rigid price directives given now by many enterprisers. The change of the word is supposed to convey this kind of policy. The *circa* prices should also be listed with the Prices and Cartel Board.

Then, for some time there had been another activity outside the Prices and Cartel Board which was taken up by the trade unions themselves. The trade unions have founded in many places price committees which survey the local prices of standard consumer goods. They notify their members their findings so that they might be able to choose the cheapest shops. Already the effect of their criticism of higher price brackets has, supposedly, given some push to the lowering, as much as possible, of the higher priced products.

There is another innovation contemplated, something which is perhaps peculiar to Sweden and that is the institution of an ombudsman. I do not know if that word has been translated into English.

Co-Chairman Mr. BASFORD: Yes, it is a word with which we are very familiar.

Professor KRAGH: Fine. This is supposed to be extended to the field of consumption by consumer ombudsman who is supposed to protect the consumers. He would have an office of his own and he is supposed to protect the consumers against dishonest business practices. At his disposal he would have a research organization and affiliates for doing this kind of service.

So far this is only on paper, but it was adopted unanimously by the committee reporting on the matter.

Then, of course, the consumer information should be intensified at all levels by means of campaigns. Generally speaking, the price consciousness of the public should be awakened. However, there is a little difficulty compared with Canada, for example, in that, as I understand it, the Canadian housewife or consumer is aroused even by a 1 per cent increase, whereas the Swedish housewife is not, because she is accustomed to increases of 2 or 3 per cent per year. Therefore, the Swedish consumers do not find it so very much even if they go up by 4 or 5 per cent.

So it is easier, certainly, to develop and maintain a consciousness about prices when you have a record of stability such as you have here in Canada and in the United States than it is to awaken the consumers up to this kind of consciousness in Sweden. That is quite a slow process in Sweden and a painful one.

I might finish by saying, perhaps, that we do not consider a price increase of a couple of per cent very dangerous in Sweden, in any event, because we have had this record of experience without very much happening, really. And when I talk about "very much happening" I mean the external balance. Then we console ourselves also by saying that, after all, in the yearly price increases there is a large element of quality increase. The quality increases are not captured by the consumer price index, however. The price increase, therefore, is really to some extent neutralized by the quality improvement in many products. The consumer pays a higher price, but he is paying a higher price for a better product and that should, reasonably, be considered in the price index. I do not know if you have taken up that last defence line yet.

Co-Chairman Mr. BASFORD: Oh, yes, we have heard that.

Professor KRAGH: That is all I have to say. Thank you.

Co-Chairman Mr. BASFORD: Thank you very much, Professor, for a full and interesting statement. We now have some questions. Mr. Scott is first.

Mr. SCOTT (*Danforth*): Professor, I gathered from your remarks that you seem to have attacked the whole price problem in Sweden on a pretty broad front, that is, dealing with investments and manpower policies and your external trade, et cetera. And yet you have told us that you now have reached the stage where wages are increasing faster than productivity. Do you consider that wages are the largest ingredient in price increases?

Professor KRAGH: Yes, I think they are.

Mr. SCOTT (*Danforth*): In that case, where are you going to go from here, because we are reaching the point where the shortage of skilled labour has become worldwide and we are experiencing it here in Canada too. You told us that in Sweden you now have a condition of almost overemployment. Given that situation, how are you going to relate wages to productivity, what sort of steps do you envisage in the future as being able to contain wage increases to the point where they do match productivity?

Professor KRAGH: One main line of attack is still the labour market policy, the manpower policy, the idea being that in keeping a general over all pressure as soon as bottlenecks arise in production you have to try to foresee them, if they do arise, to bridge them. The efforts to move resources from receding to advancing industry has to be intensified. The Labour Board is making available more money and training facilities to undertake this transfer. This is one main way of dealing with it.

Mr. SCOTT (*Danforth*): How effective is that likely to be in a market where you have an extreme shortage of labour, which is increasing according to you.

Professor KRAGH: Well, as I say, we have no explicit income policy so the government cannot do anything directly by way of linking productivity to

wages. They have to leave it to the negotiating parties. They cannot do anything directly.

Mr. SCOTT (*Danforth*): Why is that?

Professor KRAGH: It was a principle that was established long ago. Both parties on the labour market will not take any interference by the Goverment.

Mr. SCOTT (*Danforth*): Could you describe briefly how this mechanism works? You have referred two or three times to the labour market. How does it function?

Professor KRAGH: By central negotiation between the employers' association and the trade unions, it is sometimes very prolonged. It took several months last time. Now we have a three year agreement, from 1966 to 1967 to 1968, and they agree upon a certain average increase in wages including social benefits of different kinds. Then in the second stage it is up to the trade unions to distribute part of this total increase as between their labour unions; but the main and principal agreements concern the overall increase in wages, the outcome depending upon the strength of the two parties. But it helps very much in that they are aware of the broad limits within which the agreements must fall.

Mr. SCOTT (*Danforth*): How successful in your judgment have been the actions of the Price and Cartel Board? It has been suggested that in Canada we have a sort of price review board. Have you had any success in Sweden in that way?

Professor KRAGH: We have not done anything very active lately. We have been successful in specific areas with prices, specific consumer prices, but compared to the total consumer price field I think it has been not very important.

I would like to stress that the reason we have not been so very much occupied or alarmed before is that we have not had any troubles with external matters, and even now have not had any drain on our foreign exchange reserves, and that is the criteria that the wages have not been rising too fast. When we are in trouble with foreign exchange we will be really alarmed as to prices.

Mr. SCOTT (*Danforth*): You seem to be in a position of accepting a continual rise in prices.

Professor KRAGH: Nobody has been very much concerned about it until now.

Co-Chairman Mr. BASFORD: Mr. Allmand?

Mr. ALLMAND: Dr. Kragh, when you have a situation where prices are continually rising, such as your situation, or even ours, these price increases are particularly hard on people with fixed incomes. In Canada this is especially so with respect to people on old age pensions, because they may have annuities or Government pensions or other pensions that they have saved for when they were working. I was wondering if in Sweden you have elevator provisions for this. If you have such great price increases how do people on fixed incomes deal with these things?

Professor KRAGH: Well, the provisions are geared for 100 per cent compensation for price increases.

Mr. ALLMAND: Do you do have elevator clauses in your provisions?

Professor KRAGH: Yes.

Co-Chairman Mr. BASFORD: That is referring to government. Does that apply to private companies?

Professor KRAGH: No. For a long time they have been working to be allowed to invest in shares, in order that their assets should be built up, but only a small amount of their assets can be used in that way.

Mr. ALLMAND: I suppose this applies not only to old age pensions but to the blind, the sick and deaf, and so on?

Professor KRAGH: Yes.

Mr. ALLMAND: Does this also follow the consumer price index?

Professor KRAGH: Where there is a specific pension index it is pretty close. One exception is childrens' allowances, but they are not indexed formally, but raised by acts of Parliament in relation to the cost of living.

Mr. ALLMAND: In trying to locate the causes for your increase in prices have you had any major introductions in social welfare in the past seven years which might have contributed to this rise in prices?

Professor KRAGH: Yes. We have had several kinds of benefits which have been made available by payments for enterprises, and the main one is the additional pension fund which has been built up since 1960 and which is paid by percentage on the wage sum of the enterprises. It is now amounting to some 8 per cent of the wage sum, is paid into the government pension fund which is an additional pension fund to the basic old age pension.

Mr. ALLMAND: So if I understand you correctly this is passed on in the prices of the products and services sold by these people?

Professor KRAGH: As far as it can be passed on, yes.

Mr. ALLMAND: It would seem to me that the reason people are not much concerned in Sweden over such rapid increases is because of the elevator clause on fixed pensions, otherwise you would have the outcry that we have in Canada.

Professor KRAGH: Yes. But, of course, earners of other fixed income are not escalated.

Senator MCDONALD: This would be concerned with employed people?

Professor KRAGH: No, not necessarily, but people living on capital income.

Mr. ALLMAND: Do you have any type of compulsory arbitration in essential services if there is a labour dispute—is that in your law at all?

Professor KRAGH: If it is deemed a danger to society there can be compulsory arbitration.

Mr. ALLMAND: You do not have it at all?

Professor KRAGH: Yes, we have if it is geared to the social situation.

Mr. ALLMAND: Is there a provision for such compulsory arbitration in your labour disputes act?

Professor KRAGH: Yes, but it has not been used for a long time.

Mr. ALLMAND: But it could be?

Professor KRAGH: Yes, it could be. Recently the teachers were striking but the government did not interfere. On the contrary, it was the academic union which tried to get the Government down, calling by striking for all Government officials through the Minister of Finance, and so on.

Mr. ALLMAND: Do you have any laws which regulate advertising and sales promotion expenses?

Professor KRAGH: No, not directly, that I know of. I am not so very familiar with that. We do not have the unfair advertising code, as in some other countries.

Mr. ALLMAND: Have there been any studies in Sweden on the effect of advertising and sales promotion on the price level?

Professor KRAGH: No, not that I know of. I will ask my friend here. We have a voluntary agreement between the enterprises themselves but not on the side of the Government.

Mr. ALLMAND: I see; and do you have any controls on packaging or labelling?

Professor KRAGH: I am sorry, I am not very familiar with these things, but I have not heard of it.

Mr. ALLMAND: Do I understand you to say that you don't have any laws similar to those we have in the United States and Canada—anti-combine and anti-monopoly laws?

Professor KRAGH: We have this price and cartel board whereby all cartel agreements have to be registered.

Mr. ALLMAND: You accept them?

Professor KRAGH: If there is a case of an arrangement damaging to the economy it can be handed over to another ombudsman which is called a free competition ombudsman—how shall I translate it—or freedom of enterprise ombudsman.

Co-Chairman Mr. BASFORD: Dr. McGrand has a supplementary question.

Senator MCGRAND: Who decides when it is dangerous to the economy?

Professor KRAGH: The price and cartel board—they hand it over to the ombudsman who decides it in the first instance.

Senator MCGRAND: Do you have any strikes at all?

Professor KRAGH: Yes, but very few. We have had some this autumn but our last big strike was in 1946.

Mr. ALLMAND: One final question: What percentage of your consumer retail stores are co-operatives in Sweden? I understand the co-operatives play a big role in Sweden. Would a large percentage of food stores be co-operative?

Professor KRAGH: I wouldn't know—10 per cent or something like that.

Mr. ALLMAND: What about the other types of consumer stores?

Professor KRAGH: It would be different in different groups. Clothing is higher and in rubber boots they once cornered the market. They have gone into fields where free competition has been threatened. It is quite different in different markets.

Mr. ALLMAND: Are co-operatives in Sweden organized into a vast national association?

Professor KRAGH: Yes, they are.

Co-Chairman Mr. BASFORD: Senator Carter.

Senator CARTER: Could you tell the committee what percentage of the labour force is unionized in Sweden?

Professor KRAGH: I cannot. I would not like to quote a figure, but I would say 90 or 95 per cent.

Senator CARTER: Practically all the labour force?

Professor KRAGH: Yes.

Senator CARTER: When you have a pricing policy your union leaders are conscious of your efforts to equate price increases with productivity?

Professor KRAGH: Yes.

Senator CARTER: And they know what your objective is and it is up to them whether to co-operate or not?

Professor KRAGH: Yes.

Senator CARTER: This 3 per cent that has been going on practically each year—is that confined or is that a general increase to all items or is that an average? Are there any commodities such as food or clothing that go up much higher than 3 per cent?

Professor KRAGH: Yes, rents have of course been quite stable for long periods. Food is rather above the average and textiles far below because there is a large share of those which are imported from countries with lower prices and this keeps prices down. In food we have a special arrangement to protect the farmer's income which means that the prices are higher and rising higher than

import prices. That is the main reason for the price increase.

Senator CARTER: What percentage of the items in the average retail store in Sweden would be imported? Do you produce most of your items yourselves or would you produce half and import the other half?

Professor KRAGH: For ordinary consumption?

Senator CARTER: Yes.

Professor KRAGH: Well, the total import is almost 25 per cent of total production, and in the consumption it is quite above this percentage because in other segments like housing it is much smaller—below the average.

Senator CARTER: Does that not complicate the problem? You have no control over what you import. Do you have a tariff board which tends to keep prices down?

Professor KRAGH: No, except food pricing which is controlled when imported. The low tariffs also influence the productivity increase, which I forgot to mention, as competition is supposed to drive industry into progressive and dynamic sectors and cutting down those which cannot compete and cannot go ahead.

Senator CARTER: This price and cartel board that you spoke about—does that or is that a sort of watchdog about price fixing to prevent manufacturers from getting together and fixing prices for their products?

Professor KRAGH: Yes, it is, but the initiative usually has come from the wholesalers or retailers themselves who have taken their case to this ombusdman when they have been denied deliveries.

Senator CARTER: This acute manpower shortage which you have had over a number of years, how has that affected the development of automation?

Professor KRAGH: Very much so. It is speeding up very much.

Senator CARTER: It has accelerated greatly?

Professor KRAGH: Yes.

Senator CARTER: Do you have any machinery in your Government whereby you keep a watch of profit margins of various companies? Do they have to declare them? Are they published?

Professor KRAGH: In the yearly statements, but it is not very explicit.

Senator CARTER: These ombudsmen you have spoken about, the free enterprise one and the consumer one, do they keep tabs on this?

Professor KRAGH: They do not keep watch on the overall profits.

Mrs. MACINNIS: I have two or three questions rather unrelated. Dr. Kragh, you spoke about the domestic demand having to be cut down during this recent period by various ways. When you were trying to cut down domestic demand for consumer goods, was there any distinction made between luxuries and basic goods that people needed? Was there any distinction in the way you did the clamping down?

Professor KRAGH: Yes, in a way. First of all, there was an overall basic increase in the turnover tax, but then as always there was a clamping down on liquor and tobacco and this sort of thing, which are the favourite targets of the Minister of Finance.

Co-Chairman Mr. BASFORD: Mrs. MacInnis, would you wait just a moment, please? I wonder if you would mind terribly if Dr. McGrand asked a few questions? He has to appear in the Senate.

Senator MCGRAND: I was going to ask you if there is a good relationship between management and labour? Is there somewhat of a policy developed by both the workers and management by which the workers of the company share in some way in the profits of the company? Do you have that?

Professor KRAGH: No, we do not.

Senator MCGRAND: There is no profit sharing, in other words.

Professor KRAGH: No, there is no profit sharing.

Senator MCGRAND: Is there any effort on the part of management and labour to define the policy which the company is going to follow? Do you know their program and their policy? Is it worked out by co-operation in any way?

Professor KRAGH: No, not in the sense of investment policy. It rather concerns the working places, so to say, the working conditions and such things. The administration. There are specific boards, joint boards for this kind of thing.

Senator MCGRAND: One more question. Why is it that Sweden, Germany and Canada and so many countries have a shortage of skilled workers? Is there some chance that production is going to overtake consumer demand? What is making this consumer demand so large that you cannot overtake it?

Professor KRAGH: One main factor is simply the population structure of Sweden.

Senator MCGRAND: But what I am saying is that it is common to Sweden, Germany, Canada, United States, and Australia and so on.

Professor KRAGH: No. As I understand it Canada, for instance, has a natural increase in the working population of about 2 per cent each year, whereas we have none. That makes quite a difference.

Senator MCDONALD: Why do you not have a natural increase?

Professor KRAGH: You have to go back to the birth rate 20 or 30 years ago, sir.

Senator MCGRAND: What is the population of Sweden now?

Professor KRAGH: Seven and a half millions.

Senator MCGRAND: It has not increased very much, then.

Professor KRAGH: No, it has not. We rely really on immigration for increases in the labour force.

Senator MCGRAND: All right, I am through.

Mrs. MACINNIS: Could I go back for a minute? When you put these restrictions on consumer demands did you make any effort to protect the basic things people need for food and rent and so on? Did you make any attempt to make it easy to get a basic level of commodities or did you not?

Professor KRAGH: No.

Mrs. MACINNIS: You relied entirely on gearing your low income and pensions to that.

Professor KRAGH: Yes.

Mrs. MACINNIS: Right. Now, you spoke about the Prices and Cartel Board and indicated that the unions more or less made available to their members the findings of these boards in regard to prices and wages and so on. Have you in Sweden any organized consumer movement quite apart from the trade unions, among consumers in all walks of life and all occupations, which would do a job like that?

Professor KRAGH: No. At least I might add here that these trade union committees on prices are not related to the Prices and Cartel Board. They are independent.

Mrs. MACINNIS: But you do not have any independent consumer movement?

Professor KRAGH: No.

Mrs. MACINNIS: I wanted to ask just little bit about advertising. We are troubled a lot in Canada, at least we have seen it in this committee, by big powerful groups of manufacturers advertising over the television and radio and

making people want a lot of things just by high pressure advertising. This knocks the market out of gear and makes people's incomes go out of gear too. Do you make any attempt to control that or does that situation exist in Sweden?

Professor KRAGH: No. Advertisement on radio and television does not exist in Sweden. It is excluded even to the extent that when televising ice hockey or football the television camera men should be very careful not to catch any advertising signs.

Mr. SCOTT (*Danforth*): You have no advertising or television?.

Professor KRAGH: No, sir.

Mr. ALLMAND: Is there any private television?

Professor KRAGH: No.

Co-Chairman Mr. BASFORD: Let us all go to Sweden.

Mrs. MACINNIS: I really think we are striking pay dirt. Following on Mr. Allmand's question about co-ops, how much of a factor is the co-operative movement in holding prices and the economy steady in general? It is a useful factor?

Professor KRAGH: I think it is quite a useful factor in keeping prices down because they have intervened in several cases of monopoly and even the threat of intervention is quite forceful, it would seem, in keeping things from appearing at all.

Mrs. MACINNIS: Do you have a co-operative legislation?

Professor KRAGH: What do you mean?

Mrs. MACINNIS: Does the government have a law to regulate or look after co-operatives?

Professor KRAGH: I do not think so. They just fall under the general law, I think, of enterprises. I might add that television and radio on the other hand are used for consumer information. We have a consumer institute which looks into the quality of certain products and compares them, and they appear on television with their findings.

Mr. ALLMAND: You have only government controlled radio and television? You have no private television or radio?

Professor KRAGH: That is right.

Senator MCDONALD: What about advertising in the daily press by large companies or by any other companies? Do they advertise their wares in the daily newspapers in Sweden? And I mean the local food and clothing stores, for example.

Professor KRAGH: They do, but not nearly to the extent they do in North America. You know if you can get a chicken for $1.

Senator MCDONALD: Is there any control of advertising in the newspapers?

Professor KRAGH: The control is all up to the newspaper itself. They have some kind of screening of advertisements.

Mr. MCCUTCHEON: Professor Kragh, you made a slight reference to two pensions for the citizens. Would you explain to me, please, just a little of how they work? Will you explain the level at which they operate?

Professor KRAGH: Yes, one is an old age pension which we had since the First World War.

Mr. MCCUTCHEON: Is it universal?

Professor KRAGH: Yes, it is universal and it amounts to about $1,000 or a little more per year. The other one is a supplementary pension scheme which is supposed to, when it is functioning, give any pensioner 60 per cent in pension of the income he earned on average in his best 15 years of income earning. He is

guaranteed that, and then, on the other hand, all over his earning lifetime he pays or rather his employer pays a certain per cent of the payload into this fund. As of now the fund has existed only five years and there has been a very small outgoing payment so far. You have to have it 30 years before it reaches full function, so up to now there has been only a very small amount of fund expenditures.

The fund amounts now to 25 per cent of the total credit market supply. If you add the lending of all savings banks, private insurance companies and the borrowing by shares or bonds in the open market 25 per cent of this lending amounts to the annual additions to this fund. In another five years it would amount to some one third of the total credit market. So it has accumulated very quickly in this period.

Senator CARTER: What is the pension age, 65?

Professor KRAGH: Sixty-seven.

Mr. MCCUTCHEON: And with the blending of the two pension plans one could conceivably have 100 per cent of their better years, could they, Dr. Kragh?

Professor KRAGH: In the low income brackets, yes.

Mr. MCCUTCHEON: Thank you very much.

Co-Chairman Mr. BASFORD: Senator Thorvaldson?

Senator THORVALDSON: I am rather amazed at how you have been able to live with inflationary prices such as you have had. It seems to me they have been a lot higher than in the United States or in Canada. Can you give us the approximate figures of your increases from now as against say ten years ago.

Professor KRAGH: Consumer prices?

Senator THORVALDSON: Yes.

Professor KRAGH: If you take the 1959 position, it is 25 per cent above that, but it was about the same rate in the fifties too.

Senator THORVALDSON: Your prices have gone up about 25 per cent since—

Professor KRAGH: 1959.

Senator THORVALDSON: That is not very much higher than in Canada.

Professor KRAGH: Oh, yes, it is.

Co-Chairman Mr. BASFORD: We had some material filed by Professor Neufield from the international financial statistics showing percentage change from 1958 to May 1966; for the United States 12 per cent; Canada 15 per cent; South Africa 17 per cent; Norway 28 per cent; Italy 32 per cent; Sweden 33 per cent; France 36 per cent; and Finland 39 per cent.

Senator THORVALDSON: I recall those figures. Just one question in passing. You said there had been devaluation in Sweden in 1949. Did that devaluation have a marked effect on prices, and did prices start to rise in an extraordinary fashion as the result of the devaluation?

Professor KRAGH: No, not at all compared with the Korean war crisis.

Senator THORVALDSON: You said wage costs in Sweden had increased approximately 9 per cent a year.

Professor KRAGH: Wages, yes.

Senator THORVALDSON: And your productivity about 6 per cent?

Professor KRAGH: Six to 7 per cent.

Senator THORVALDSON: How do you fare in regard to investment capital, does Sweden get investment capital from outside, or do you provide your own entirely?

Professor KRAGH: We don't get any capital from the outside world, it is domestic.

Senator THORVALDSON: You generate your own capital?

Professor KRAGH: Yes.

Senator THORVALDSON: Have you had any great problems in regard to generating enough capital to continue the increase of productivity and the standard of living, and so on?

Professor KRAGH: Not so far. As a matter of fact the investment development in Sweden in the sixties increased because of incentives that were given at the end of the fifties and later on. There might be trouble now because the profit margins have been squeezed mostly in the export industries where the wage unit costs have increased in relation to prices. These profits have been pared down, which means that the industry to an increasing extent have to go to the credit market on investment financing. The financing is to more than 50 per cent now provided by the credit market, and enterprisers might become reluctant in relying to that extent on financing, specifically when it comes to investment for research. We had to develop forms of financing to suit those kind of needs, and the pension fund is envisaged as one possibility to give this kind of credit.

Senator THORVALDSON: Another point. You are associated, of course, with EFTA, just the same as the Common Market. Has that been a beneficial institution to you over the years?

Professor KRAGH: It is difficult to say. Our export position has developed quite well with regard to the European community. But that simply shows that the countries in the European community have been advancing more dynamically than EFTA. Even if we have lost out there in some markets our exports to these countries have been growing faster than in the United Kingdom where production has hardly increased at all. So these factors have been more important until now than EFTA.

Senator THORVALDSON: Therefore, you have to keep careful watch. Is your trade in pretty good balance from year to year?

Professor KRAGH: Yes, because up to 1965 we didn't do anything about it, that is the amazing thing.

Senator THORVALDSON: Is there a specific government policy to achieve that result?

Professor KRAGH: No.

Senator THORVALDSON: Or does it just happen?

Professor KRAGH: It just happens, and that is why we haven't been alarmed about price developments.

Senator THORVALDSON: Many of us have really admired the way your economy has operated and what you have achieved in your country. I now want to refer to one or two other things. What about interest rates? I suppose they have gone up similar to the manner in which they have done in Canada and the United States?

Professor KRAGH: Yes, interest has been going up all over during the past three or four years. We have a 6 per cent discount rate, and you have to pay more than 7 per cent to place a first grade bond issue in the market, and still this does not tell the whole story of the tightness of the credit market. There are many enterprisers who would like to pay a higher rate of interest, but there is no credit available.

Senator THORVALDSON: Would you indicate the effect briefly of the tight rates in your country? Is that putting a brake on your economy, or the reverse? I recall you used the phrase we use here "overheated economy."

Professor KRAGH: Yes, the fact that we have had an overheated economy shows that the credit policy is not tight enough. We should have had a higher interest rate to keep back investments.

Co-Chairman Mr. BASFORD: Before going back to Mr. Scott, may I ask a question? You said in your statement, Professor Kragh, that the wage level had been geared very intimately, to use your words, to the export industries. Just how are they geared?

Professor KRAGH: That was in the fifties. The export industries had a clear notion of what they could reasonably pay in wages in order to keep a reasonable profit margin and still be competitive in their markets. As they were rather strong, they negotiated with the employers first and only then with the other segment of the labour market. In the fifties employment was not so full as it is now, and that meant that enterprisers were in a good position to give their side of the story and to link the wages to their profit possibilities. But, as I said, in the sixties the situation changed. There was full employment and a better bargaining position for the wage earner. And industry has lost touch with their market prices and had to draw upon their profit margins.

Senator MCDONALD: Do you have one large confederation of labour unions or a multiplicity of small unions in your country pertaining to different industries?

Professor KRAGH: We have unions within different branches, but it is a very strong central union, and the bargaining is undertaken by the central office although of course with consultation with all the branches.

Senator MCDONALD: Do you just have one strong central union?

Professor KRAGH: Yes, it is unusually strong, I think, compared with other countries.

Senator MCDONALD: And all your smaller unions are federated with this?

Professor KRAGH: Yes.

Senator MCDONALD: And the large union does the bargaining on behalf of all?

Professor KRAGH: Yes.

Co-Chairman Mr. BASFORD: You have said that the bargaining between the two parties is between two limitations, the employers' limit and the employees' limit both related to productivity and both using the same criteria and definitions and speaking the same language. I think many people in Canada get the impression that the two parties are talking completely different languages and using different criteria with management saying "We will pay as little as we possibly can get away with" and the employees saying "We will get as much as we possibly can." How do you get people using the same definitions and talking the same language?

Professor KRAGH: Perhaps I should first amplify what I said about central trade unions. If I don't, it might look a little peculiar. As I said before, engineering industries were the wage leaders. That was in the fifties when the bargaining was not as advanced or formalized as it is now. Before going into bargaining, inside a central union, of course, there is a lot of discussion of the common target and the way that the gains should be distributed between them. Earlier the engineering industry had the big say which it does not have any more. Now, as concerns the common language talked by labour unions and employers' associations, I primarily mean the same kind of theory. They all understand the impact of wages on prices and the importance of competitiveness for the export industries. The trade unions themselves have been concerned lately with the problems of the export industry and the possibility of selling their products, and they realize that if they cannot sell the Government has to cut down internally on domestic demand.

Senator THORVALDSON: In other words, they must not price themselves out of the markets of the world.

Professor KRAGH: Yes. That means they certainly are aware of some kind of ceiling for their claims. That ceiling is, however, a little higher than the employers' associations' concept of the same ceiling, but at times like now when the export industries are threatened they come closer to each other than before. They are bargaining between these limits and usually those limits are so close that one can be certain there will be an agreement in between, and no strike. It is a question of finding a course partly by strength in this No Man's Land.

Senator HOLLETT: Would you care to make a statement as to what in your opinion will be the end result of this continual increase in wages and consumer prices? What will be the result regarding what I would call your dollar?

Professor KRAGH: Well, as I said, we are a little more hopeful with regard to our neighbours than you might be so far as the United States is concerned, because in the United States they have quite a high performance with regard to prices and wage costs. In North America you have not only had good price stability but also you have had profit increases, as far as I know. The profit margins have been increasing. The picture is quite different in Europe. In spite of high prices, profit margins have been squeezed considerably. As long as price increases in Sweden keep pace with its main competitors in world markets, we don't worry about it and we have this consolation of large productivity increases and also in the fact we have come quite some distance so far as social security goes. We say to ourselves that other countries must have a pension fund and perhaps they have to get this 10 per cent of the payroll to be paid by the enterprise. We have already taken this 10 per cent. The same applies to sick benefits and so on, so we think in the future they will have to catch up in this way and we will have the relative edge in our course of development. But this might be an illusion. I don't know. Until now we have not had any clear danger signals on the external side except in 1965 when it was not so much a question of competitiveness as too much pull on the domestic demand. We don't see any immediate danger in continuing this process.

Senator HOLLETT: Do you think there will ever be any stop to this 3 per cent—will it change and slow down to a stop?

Professor KRAGH: No.

Senator HOLLETT: Well, then, how will this end?

Professor KRAGH: We end up with a higher price level, but that does not concern us so much.

Senator HOLLETT: Then it may be that in another 20 years we will have to pay 100 per cent more for a hundredweight of apples.

Professor KRAGH: In some countries in South America they have had a 30 per cent increase over a period of years while others have had a greater degree of price stability than the United States and Canada and yet they do not live as well as the others.

Co-Chairman Mr. BASFORD: Mr. Scott.

Mr. SCOTT (*Danforth*): Do you have provincial governments in Sweden?

Professor KRAGH: Yes, we have.

Mr. SCOTT (*Danforth*): Do you find much difficulty in implementing Government policies because of the existence of provinces?

Professor KRAGH: No, not very much because they are very weak. The local communities are stronger than the state Government. The only difficulty really is that our state governors are so very ambitious with regard to their states. They want to have all industry centered there. If you were to put together all the plans for the different states you would find they would require so much capital and labour force that we could not supply them in 50 years.

Mr. SCOTT (*Danforth*): You seem to have achieved an objective that has eluded us for having labour and management really bargain together for some sort of national objective. How has this come about? By tradition? How did you accomplish it?

Professor KRAGH: I think it is a rather long process of education. Labour has had the experience in years past of finding that when they had the best bargains on paper it came out worse as prices soared in those years. They do not stand to gain much by excessive wage claims.

Mr. SCOTT (*Danforth*): One last question; you mentioned when you were talking earlier that your Government does a lot of directing of investment. What agencies do you have to do that?

Professor KRAGH: No, they do not make many direct investments for business cycle purposes. When you have a slump you try to encourage investments and when you have a boom you try to cut investments off. It is more at this general level.

There are some policies for localization of investments, but that is not very important, really.

Mr. SCOTT: But your Government does not directly intervene in the economy for investment purposes.

Professor KRAGH: No, on a general level only.

Mr. SCOTT: That is all, thank you.

Mr. MANDZIUK: Do you have any control over the retailer-price to the consumer-price?

Professor KRAGH: No.

Mr. MANDZUIK: No control whatsœver?

Professor KRAGH: No, except that by this mechanism of the Prices and Cartel Board against unfair prices, but not on the general level.

Mr. MANDZIUK: This Prices and Cartel Board is not a Government board?

Professor KRAGH: No, it is.

Mr. ALLMAND: Dr. Kragh, has the percentage of the gross national product which goes to labour been increasing in recent years?

Professor KRAGH: Yes, it has. The share of the wage sum in total income has increased in the sixties.

Mr. ALLMAND: It has increased in the sixties.

Professor KRAGH: Yes, in spite of the increased payments to the pension fund.

Mr. ALLMAND: What sector of the economy has been receiving a decrease in return from gross national product? Rents?

Professor KRAGH: And profits.

Mr. ALLMAND: Rents and profits are smaller.

Professor KRAGH: Yes. The profit margins have been squeezed during the last few years.

Mr. ALLMAND: You said that you got all your investment capital from within Sweden. Do you have some kind of a public corporation for the investment of funds that lends money to private enterprise so that you can assist your national industries to develop?

Professor KRAGH: No, we have a specific organization only for the small and medium enterprises.

Mr. ALLMAND: Which lends money to smaller enterprises?

Professor KRAGH: Yes. But otherwise it is by the banks and insurance companies and so on. Most specifically it is the banks. They do have an Industry Bank in Norway, but they do not in Sweden.

Mr. ALLMAND: Finally, what is the percentage of private investment to public investment?

Professor KRAGH: As far as I remember the public investment, if you take state and local authorities together, would amount to some 10 billion crowns, and if you take private investment, it would amount to 15 billion crowns.

Mr. ALLMAND: Ten to fifteen?

Professor KRAGH: Yes, it is 40-60.

Mr. ALLMAND: Has the public sector been increasing?

Professor KRAGH: Oh, yes.

Mr. ALLMAND: According to percentages?

Professor KRAGH: Yes. But industry has been increasing too, so that it is commerce and transportation and those sectors which have been falling back.

Mr. ALLMAND: Is the transportation public? It is public in Sweden, is it not?

Professor KRAGH: It is both public and private. The railways—well, here I am referring to the public sector, not to public enterprises.

Mr. ALLMAND: But I meant to include those.

Professor KRAGH: But they are not in principle organized on a pay-as-you-earn so that they are autonomous enterprises, really.

Mr. ALLMAND: So, in my question, your national railways would be included as being in the private sector?

Professor KRAGH: Yes, and the post office and the like would also.

Mr. ALLMAND: Therefore, if you include those in the public sector the percentage would be much greater still.

Professor KRAGH: Yes, it might be 50-50.

Mr. JOYAL: Following Mr. Allmand's question, what percentage out of your gross national product is ascribable to wages and salaries?

Professor KRAGH: About 70 per cent.

Mr. JOYAL: The figure for Canada given to us earlier by some other expert such as yourselves, sir, was approximately fairly stable at 49 to 50 per cent.

Professor KRAGH: Oh, no.

Co-Chairman Mr. BASFORD: Mr. Joyal is referring to Canada, sir.

Professor KRAGH: Oh, in Canada.

Mr. JOYAL: You mentioned that there was no advertising on radio or on television. I think I understood you to say in answer to another question that there was limited advertising in the newspapers.

Professor KRAGH: It is not limited.

Mr. JOYAL: It is just not the habit of the country, I suppose, to have big advertising?

Professor KRAGH: Not compared with the American newspapers.

Mr. JOYAL: And yet the demand pull for consumer products has probably been much stronger there than it has in North America, if we use the price index as an indicator. Is this a correct statement to make?

Professor KRAGH: Yes.

Mr. JOYAL: So we could conclude that in our country either advertising does not, as someone said the other day, throw a match into the gasoline, or, it might also be said, it is merely useless. I do not know which view you would share.

Professor KRAGH: No. I do not think you can draw that conclusion, because there might be comparatively less advertisement in Sweden because there is no need for it. The household income has advanced much faster there than in the United States or in Canada. On the other hand, the profit margins have increased in the United States and Canada whereas they have diminished in Sweden. So, with an advance in household income and in consumer demands, they can sell everything they produce.

Mr. JOYAL: Following again from Mr. Allmand, I understood you to say that, if you included the expenditures of your public corporations, and I mean those that are state-owned, the proportion of public expenditures to gross national expenditures would be in the ratio of about 50-50.

Professor KRAGH: No. This concerned only investments.

Mr. JOYAL: Oh, investments?

Professor KRAGH: Yes.

Mr. JOYAL: Have you got figures on what would be the relative proportion between public and private expenditures in terms of your gross national product? I believe the figure that I last saw cited for Canada was about 34 per cent. I believe that was it.

Professor KRAGH: That is very high. It is not so high in Sweden.

Mr. JOYAL: For Canada about 35 per cent of the gross national product was made up of public expenditures.

Professor KRAGH: That is a very high figure.

Mr. JOYAL: Yours is lower?

Professor KRAGH: I will take a look.

Mr. JOYAL: Of course, this includes the federal, provincial and municipal government expenditures in Canada.

Professor KRAGH: It is 30 per cent in Sweden. And that is considered to be a high percentage. Yet yours is supposed to be higher?

Mr. JOYAL: This includes all levels of government, however. I take it you have the same three levels of government as we have here.

Professor KRAGH: Yes. You certainly have stronger provincial governments, but, nevertheless, all in all I am astonished that you have a higher percentage. You know, this percentage is usually used to characterize countries with a great degree of socialism.

Mr. JOYAL: I do not think we have been shy in using it as a criterion here either.

Professor KRAGH: It is a measure of the Government's share of resources of a country.

Co-Chairman Mr. BASFORD: In Canada it could indicate the degree of over-Government.

Senator MCDONALD: You are among professionals now, when you come to socialism.

Co-Chairman Mr. BASFORD: Just a moment. I think you were off on that figure, Mr. Joyal. I believe the figure is $5 billion out of $33 billion.

Professor KRAGH: Which is 15 per cent.

Mr. JOYAL: I understood that that represented only the federal expenditures.

Co-Chairman Mr. BASFORD: No, that is Government expenditures.

Mr. JOYAL: The federal Government's budget is $5 billion, I understand. Does that include the provincial expenditures?

Co-Chairman Mr. BASFORD: You would have to go back to Mr. Bryce's examination and his evidence. Gross national expenditure in constant dollars in

1965 shows an amount of $5 billion in Government expenditure out of a total gross national expenditure of $33 billion.

Mr. JOYAL: So that is only about 20 per cent.

Co-Chairman Mr. BASFORD: Yes.

Mr. JOYAL: One final question, if I may. I understood you to say that when your two major parties meet at the bargaining table it is a council of industry, presumably, with trade unions, that they will assure a certain percentage increase on nominal wages; but then I undertood you to say that after this the trade unions have to divide the pie among themselves. Is that what creates even a greater conflict between various segments of your wage earners as against the conflict with management?

Professor KRAGH: No, I am sorry, you misunderstood me. Everybody gets a certain general increase and then there is another share of the total cake which is distributed mainly among the lower wage earners, perhaps. I meant that part of the conflict between the trade unions, that is, the workers, and, on the other hand, the white collar unions which are mainly outside the trade unions—the civil servants, for instance, or the academic people. They are much smaller than this big trade union but they usually have their negotiations after the big trade unions. Then they manage to push up a little farther. The first agreement will give least and then they become dissatisfied with their share.

Co-Chairman Mr. BASFORD: I should have asked this for the record before. Can you explain briefly what the National Institute of Economic Research is, its purpose and function?

Professor KRAGH: Yes. It is a government institution, and we are subordinated to the Minister of Finance. Our task is to follow the economic development inside and outside the country and to report regularly on that development. We make forecasts for one year to one and a half years in advance. Our forecasts are specifically geared to our manpower policy interests in the sense that when we make a production forecast for different branches, different industries, different sectors, we try to get the employment implication in the forecasts. So, if the forecast is an increase in production in the forest industries, we therefrom derive the demand for woodcutters and timber cutters in the forests, which concerns the manpower policy. Our reports are included in the budget documents.

Then we have a research division which works on the economic model, and so on.

We also have the obligation to pronounce ourselves in the committee reports which are produced on anything touching economics, which is a very burdensome task indeed. For instance, we would have to pronounce ourselves on your reports and take them up from an economic and academic point of view.

We are independent in the sense that if we follow our instruction nobody can interfere with our work. The minister does not see our report until it is in galley proofs.

Of course, we might not always see matters eye to eye with the minister, and in this respect my position could become difficult. He can, of course, if he wishes, squeeze my appropriations, which would not be very pleasant. In that case I could retire and take my chair at the university. That would be an escape clause, as you might say.

Co-Chairman Mr. BASFORD: Is the position of the institute meant to be representative of the different elements in the Swedish economy?

Professor KRAGH: No, not at all. We have nothing directly to do with organizations of the private sector, except of course that we get most of our information from them, and they are very co-operative. We get information from industry which they never would disseminate to their own members,

because that would give them inside information. I think we are trusted and that is why we get a lot of information from them. They complain to start with, but that is an educational process, too.

Co-Chairman Mr. BASFORD: Senator Carter.

Senator CARTER: I would like to ask a supplementary to clarify a point made in an answer by the professor earlier. When this negotiating takes place between labour and management the negotiations are conducted by the central union on behalf of the labour force, on behalf of the employees. Does this central union bargain with each industry separately or with an employers association?

Professor KRAGH: No, they bargain as an employers association.

Senator CARTER: For all industry in Sweden?

Professor KRAGH: Yes.

Senator CARTER: And when this bargaining is going on, the pension scheme which apparently costs around 8 or 9 per cent of the current wage, the employer pays that. Is that taken into consideration as part of the bargaining as well?

Professor KRAGH: Well, perhaps you misunderstood me. The outcome of the wage negotiation is not 9 per cent but something like 4 to 5 per cent, but then the rest is wage drift which is obtained outside of that.

Senator MCDONALD: This is your fringe benefit?

Professor KRAGH: No, it is the additional wages.

Senator CARTER: The additional amount of the extra productivity once you have taken out what goes into the pension fund?

Professor KRAGH: Yes.

Senator CARTER: Then that is shared up?

Professor KRAGH: Yes.

Senator CARTER: That is what they bargain for?

Professor KRAGH: In the negotiation they consider implicitly that the wages will be much higher than they negotiate because of the succeeding wage drift, and they also consider this along with the wage increases to different branches, because those branches that do not get much wage drift get the highest negotiated wages. Now we have a three year negotiated wage arrangement. We hope that that will contain the wage increases.

Senator CARTER: That is a device you have built into your negotiation procedures?

Professor KRAGH: Yes.

Co-Chairman Mr. BASFORD: Having set a time limit, I am going to violate it by one question. I want to refer to your price and cartel board; when you have private companies that are merging, what would be the degree of control of a market that you would regard as undesirable?

Professor KRAGH: I don't think it would be considered really. I think mergers are quite free.

Co-Chairman Mr. BASFORD: And so some process of merging could go on to the point that someone could control 100 per cent of the market?

Professor KRAGH: Yes, I think so, but I don't think this problem has been acute mainly because of our imports which assure competition anyway.

Co-Chairman Mr. BASFORD: I happen to regard it as acute in Canada.

Professor KRAGH: It might be in construction.

Co-Chairman Mr. BASFORD: Professor Kragh, on behalf of the committee please accept our very sincere thanks for coming here this afternoon and taking time from a very, very busy schedule and giving us the benefit of your knowledge and wisdom. We do appreciate your Swedish contribution to Canadian

parliamentary proceedings. I would also like to thank the Swedish Embassy for making the arrangements to have Dr. Kragh available. There is a close relationship between our two countries—a close and friendly one, and I know that by being here this afternoon you have added to it very much. Thank you very much indeed.

Professor KRAGH: Thank you. I appreciate it very much to have had the opportunity to come.

The committee adjourned.



First Session—Twenty-seventh Parliament

1966

PROCEEDINGS OF

THE SPECIAL JOINT COMMITTEE OF THE SENATE

AND HOUSE OF COMMONS ON

CONSUMER CREDIT

(PRICES)

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No. 20

TUESDAY, NOVEMBER 22, 1966

JOINT CHAIRMEN

The Honourable Senator David A. Croll

and

Mr. Ron Basford, M.P.

WITNESSES:

Swift Canadian Company Ltd.: Mr. P. L. Ayers, President; Mr. L. V. Spalding, Secretary; Mr. W. P. Christian, General Sales Manager; Mr. A. H. Beswick, General Processed Meats Manager; Mr. R. E. Swan, General Beef, Lamb and Veal Manager.

Dominion Bureau of Statistics: Mr. A. D. Holmes, Director, Prices Division; Mr. Grove A. Lane, Chief, Retail Prices Section.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1966

25227—1

MEMBERS OF THE SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON CONSUMER CREDIT
(PRICES)

For the Senate

Hon. David A. Croll, *Chairman*

the Honourable Senators

Carter,
Cook,
Croll,
Hastings,
Hollett,
Inman,
McDonald (*Moosomin*),
McGrand,
O'Leary (*Antigonish-Guysborough*),
Thorvaldson,
Urquhart,
Vaillancourt—(12).

For the House of Commons

Mr. Ron Basford, *Joint Chairman*

Members of the House of Commons

Allmand,
Andras,
Basford,
Cashin,
Choquette,
Clancy,
Code,
Crossman,
Duquet,
Horner (*Acadia*),
Irvine,
Leblanc (*Laurier*),
Lefebvre,
MacInnis,
Mandziuk,
Matte,
McCutcheon,
McLelland,
Olson,
Otto,
Ryan,
Scott (*Danforth*),
Smith,
Whelan—(24).

36 members

Quorum 7

SUPPLEMENTARY ORDERS OF REFERENCE

Extract from the Votes and Proceedings of the House of Commons, September 9, 1966:—

"Mr. Sharp, seconded by Miss LaMarsh, moved,—That the Joint Committee of the Senate and House of Commons appointed by this House on March 15, 1966, to enquire into and report upon the problems of consumer credit, be instructed to also enquire into and report upon the trends in the cost of living in Canada and factors which may have contributed to changes in the cost of living in Canada in recent months;

And that a Message be sent to the Senate to acquaint Their Honours thereof and to request the concurrence of that House thereto.

And the question being proposed;

Mr. Pickersgill, seconded by Mr. McIlraith, moved in amendment thereto,—That the motion be amended by striking out the words "by this House on March 15, 1966" where they appear in the second line thereof and by inserting in the motion as the second paragraph the following:

"That the Committee have leave to sit notwithstanding any adjournment of this House;".

And the question being put on the said amendment, it was agreed to.

After debate on the main motion as amended, it was agreed to."

Extract from the Votes and Proceedings of the House of Commons, October 7, 1966:—

By unanimous consent, Mr. Basford, seconded by Mr. Allmand, moved,—That the First and Second Reports of the Special Joint Committee on Consumer Credit and Cost of Living, presented to the House on Friday, April 1 and Thursday, October 6, 1966, be concurred in.

After debate thereon, the question being put on the said motion, it was agreed to.

Accordingly, the said Reports were concurred in and are as follows:

FIRST REPORT

Your Committee recommends that seven (7) of its Members constitute a quorum, provided that both Houses are represented.

SECOND REPORT

Your Committee recommends that the House of Commons section of the said Committee be granted leave to sit while the House is sitting.

LÉON-J. RAYMOND,
Clerk of the House of Commons.

Extract from the Minutes of the Proceedings of the Senate, September 13, 1966:—

"The Honourable Senator Connolly, P.C., moved, seconded by the Honourable Senator Hugessen:

That the Senate do agree that the Joint Committee of the Senate and House of Commons appointed to enquire into and report upon the prob-

25227—1½

lems of consumer credit, be instructed also to enquire into and report upon the trends in the cost of living in Canada and factors which may have contributed to changes in the cost of living in Canada in recent months; and

That a message be sent to the House of Commons to acquaint that House accordingly.

After debate, and—
The question being put on the motion, it was—
Resolved in the affirmative."

Extract from the Minutes of the Proceedings of the Senate, Tuesday, November 22, 1966:—

The Honourable Senator Connolly, P.C., moved, seconded by the Honourable Senator Beaubien (*Provencher*):

That the Third Annual Review of the Economic Council of Canada relating to Prices, Productivity and Employment, dated November 1966, which was tabled in the Senate today, be referred to the Special Joint Committee of the Senate and House of Commons on Consumer Credit and Cost of Living.

The question being put on the motion, it was—
Resolved in the affirmative.

J. F. MacNEILL,
Clerk of the Senate.

MINUTES OF PROCEEDINGS

TUESDAY, November 22, 1966.

Pursuant to adjournment and notice the Special Joint Committee on Consumer Credit (Prices) met this day at 9.30 a.m.

Present: *For the Senate*: The Hon. Senators Cook, Croll (*Joint Chairman*), Hollett, McDonald (*Moosomin*), McGrand and O'Leary (*Antigonish-Guysborough*).—6

For the House of Commons: Messrs. Allmand, Basford (*Joint Chairman*), Choquette, MacInnis, Matte, McCutcheon, McLelland and Whelan.—8.

In attendance: Dr. R. Warren James, Special Assistant; Mr. John J. Urie, Q.C., Counsel; Mr. Marcel Joyal, Q.C., Associate Counsel; Mr. Jacques L'Heureux, C.A., Accountant.

Replies to questions asked of the Department of Agriculture, submitted by Mr. S.B. Williams, Assistant Deputy Minister, were ordered to be printed as Appendix No. 10 to these proceedings.

The following were heard:

Swift Canadian Company Limited:

Mr. P.L. Ayers, President.

Mr. L.V. Spalding, Secretary.

Mr. W.P. Christian, General Sales Manager.

Mr. A.H. Beswick, General Processed Meats Manager.

Mr. R. E. Swan, General Beef, Lamb and Veal Manager.

At 12.30 p.m. the Committee adjourned.

At 3.00 p.m. the Committee resumed.

Present: For the Senate: The Hon. Senators Carter, Cook, Croll (Joint *Chairman*), Hollett, Inman, McDonald (*Moosomin*), McGrand and O'Leary (*Antigonish-Guysborough*).—8.

For the House of Commons: Messrs. Allmand, Basford (*Joint Chairman*), Choquette, Code, McCutcheon, Olson and Scott (*Danforth*).—7.

In attendance: Dr. R. Warren James, Special Assistant; Mr. John J. Urie, Q.C., Counsel; Mr. Marcel Joyal, Q.C., Associate Counsel; Mr. Jacques L'Heureux, C.A., Accountant.

The following were heard:

Dominion Bureau of Statistics:

Mr. A.D. Holmes, Director, Prices Division.

Mr. Grove A. Lane, Chief, Retail Prices Section.

At 4.45 p.m. the Committee adjourned until Thursday next, November 24, at 9.30 a.m.

Attest.

John A. Hinds,
Assistant Chief,
Senate Committees Branch.

THE SENATE

SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON CONSUMER CREDIT

EVIDENCE

OTTAWA, Tuesday, November 22, 1966.

The Special Joint Committee of the Senate and House of Commons on Consumer Credit met this day at 9.30 a.m.

Senator DAVID A. CROLL and Mr. RON BASFORD, M.P., Co-Chairmen.

Co-Chairman Senator CROLL: I call the meeting to order. At the outset I wish to place on record replies extracted from correspondence dated November 10 and November 24, 1966, received from the Department of Agriculture over the signature of Mr. S. B. Williams, Assistant Deputy Minister, Production and Marketing. Some of these are of a general nature and some are of a more specific nature, and those members who asked specific questions will receive a copy of this material before the record is printed. These will appear in the record as of today.

(*See Appendix No. 10 following DBS evidence*)

Swift Canadian Co., Limited gave evidence before the committee on Tuesday, November 8, and you have the printed record of those proceedings before you—it is No. 16. Subsequently they were requested to augment and amplify their presentation. They are doing that today. Mr. Ayers is on my left and he has some members of his organization with him whom he will call from time to time and they will identify themselves. Go ahead, Mr. Ayers.

Mr. P. L. Ayers, President and General Manager, Swift Canadian Company, Limited: The information which the committee requested of Swift Canadian Co., Limited at the hearing which was held on November 8, 1966, is contained in the appendices to this reply.

The "subject" is a short description of the subject matter about which certain information was requested.

The "reference" is to the pages of the transcript of the proceedings before this committee on November 8, 1966.

The "reply" is, for the most part, a brief description of the information set forth in the relevant appendix.

Request No. 1.

Subject: Financial statements of Swift Canadian Co., Limited for the fiscal years 1960-1965 inclusive.

Reference: Page 1050.

Reply: Appendix I contains a copy of the Financial Statement of the company for each of the years 1960-1965 inclusive. Appendix I was furnished by the company's auditors, Arthur Young, Clarkson, Gordon & Co., Chartered Accountants, Toronto, Ontario. Each financial statement includes a balance sheet, a statement of income and accumulated earnings, and certain explanatory notes.

Co-Chairman Senator CROLL: The members of the committee have received the brief, and all the appendices, so we will continue and come back to this later.

Mr. AYERS: Request No. 2.

Subject: Appendix "B" of the company's brief dated November 8, 1966, in dollars.

Reference: Page 1050.

Co-Chairman Senator CROLL: These appendices are in the back of the book.

Reply: Appendix II sets out in dollars the information which was contained in Appendix "B" of the company's brief dated November 8, 1966. Appendix II consists of six pages, one page for each of the years 1960-1965.

The information contained in Appendix "B" referred to above is different in form to that which is contained in the financial statements prepared by Arthur Young, Clarkson, Gordon & Co.

In order that the members of this committee may readily reconcile the two sets of figures, a reconciliation for each of the years is provided.

Co-Chairman Senator CROLL: That commences on page 15 of the brief. Just take a look at that for a moment, and we will come back to it shortly.

Mr. AYERS: Request No. 3.

Subject: Appendix "B-1" of the company's brief dated November 8, 1966, re advertising and promotion, food products only, expressed in total dollars.

Reference: Page 1050.

Reply: Appendix III sets forth the advertising and promotion costs expressed in total dollars. Appendix III also contains the per hundredweight and the per dollar information which was set forth in Appendix "B-1" referred to above.

Co-Chairman Senator CROLL: That is the next page.

Request No. 4.

Subject: Furnish copy of pro-forma type co-operative advertising contract.

Reference: Page 1052.

Reply: To help increase sales of its products, the company openly offers promotional monies to all of its customers.

The company does not use a formal contract, but rather offers the plan to all of its customers and, if accepted by the customer, pays on the basis of proven performance.

Appendix IV is a copy of the "Profit Dividend Plan" which was effective January 1, 1965-December 31, 1965, for Newfoundland, Prince Edward Island, Nova Scotia, New Brunswick, Quebec and Ontario, except the Fort William sales territory.

Request No. 5.

Subject: Fees paid by Swift Canadian Co., Limited to Swift & Company, Chicago, Illinois, for research management, etc, and how determined.

Reference: Pages 1063, 1067, 1068.

Reply: Appendix V sets forth the total payments made by Swift Canadian Co., Limited to Swift & Company, Chicago, Illinois, for each of the years 1960-1965 inclusive, for the various services rendered by Swift & Company to Swift Canadian Co., Limited.

It also sets out separately the charges which relate to food. In each case the charges are also expressed as a percentage of Swift Canadian Co., Limited dollar sales.

The fees charged by Swift & Company for services rendered to Swift Canadian Co., Limited are determined as follows:—

(a) There is an annual charge for research of about $100,000. Approximately 30 per cent of this charge is related to food research.

(b) A charge to cover Swift & Company's cost of other services rendered.

(c) A charge of $13.00 per $1000 on export orders arranged by Swift & Company for shipments to countries other than the U.S.A. Although we have our own export department, we take advantage of any additional business obtained through Swift & Company.

Request No. 6.

Subject: Prices paid by Swift at Toronto for hogs and cattle and wholesale selling prices of beef and pork, for each of the three weeks specified.

Reference: Page 1070.

Reply: Appendix VI, page 1, sets forth the estimated average price paid per hundredweight, Grade "A" hogs, delivered Toronto plant, basis warm dressed weight, and the selling prices of the major wholesale cuts for the first complete week of February, 1965, the first complete week of February, 1966, and the last complete week of October, 1966.

Appendix VI, page 2, sets forth the estimated raw cost of choice steer beef in the cooler, Toronto plant, with value of by-products deducted, on a per hundredweight basis for each of the above weeks.

Appendix VI, page 2, also contains the per hundredweight selling prices delivered chains for choice carcasses, choice hinds and choice fronts, for each of the above weeks.

Request No. 7.

Subject: Information as to the availability of bellies, either American or Canadian, at the time the prices rose.

Reference: Page 1071.

Reply: Appendix VII, page 1, is a graph which shows the wholesale price of Swift's Premium 1 lb. sliced bacon, the combined U.S.A. and Canadian frozen belly stocks and the combined U.S.A. and Canadian weekly hog kills for the period November, 1964-October, 1966.

Appendix VII, Page 2, shows two graphs. The graph at the top of the page shows the variations in U.S.A. and Canadian hog kills and U.S.A. and Canadian frozen belly stocks for the period November, 1964-October, 1966. The graph on the lower part of the page shows Ontario hog producers Grade "A" prices, U.S.A. bellies cents per lb. delivered Toronto, Canadian bellies cents per lb. Toronto, and the wholesale price per lb. of Swift's Premium sliced bacon delivered store door chains, Toronto, for the period November, 1964-October, 1966.

The scales of the above graphs have been adjusted to facilitate comparison.

Both Canadian and U.S. average weekly kills were at their lows in June, July and August, 1966 (excluding Christmas and New Year short weeks). Going into June there were available in U.S. and Canadian freezers approximately 67,700,000 lbs. of bellies. June kills provided insufficient bellies with the result that 18,500,000 lbs. of bellies were taken out of storage. At the start of June, U.S. bellies could be imported into Canada because of price, and Swift Canadian Co., Limited purchased U.S. bellies to supplement its Canadian stocks to meet the demand.

In July 22,800,000 lbs. of bellies moved out of storage to supplement fresh production and meet the demand. During July, U.S. belly prices rose over

Canadian belly prices on a delivered Toronto basis with the result that our company did not import any U.S. bellies in July.

In August, 14,000,000 lbs. of bellies moved out of storage to supplement fresh production and meet the demand. U.S. hog kills picked up and U.S. belly prices fell so Canada was on the import basis. In the time required to import these bellies into Canada, demand pressures on Canadian bellies sent them up to a high in mid-August until U.S. bellies started to flow into Canada during the last half of August in substantial quantities.

In September only 4,300,000 lbs. of bellies moved out of the freezers—obviously the fresh supply and demand were closer in balance. Canada continued on an import basis and belly prices fell precipitously the last 10 days of September when U.S. bellies flowed into Canada and depressed Canadian belly prices.

This drop in belly prices continued through October as kills increased and fresh belly production became surplus, resulting in 3,500,000 lbs. of bellies going into freezers in the U.S.A. and Canada.

Appendix VII, page 3, sets out the average weekly combined Canadian and U.S.A. hog kills, Canadian and U.S.A. combined freezer stocks and Canadian and U.S.A. belly values Toronto basis for the period November, 1964-October, 1966.

Request No. 8.

Subject: Information as to the number of bellies Swift Canadian Co., Limited bought or transferred from sources other than the Ontario market.

Reference: Page 1071.

Reply: Appendix VIII sets forth the total weight of bellies purchased by or transferred to the Toronto plant during the months of June, July, August, September and October, 1966. A transfer in this case involves a shipment from a Swift Canadian Co., Limited plant outside of Ontario.

Request No. 9.

Subject: Profit on sliced bacon.

Reference: Page 1073.

Reply: Appendix IX sets forth the estimated profit per pound before tax on sliced bacon for the period November, 1964-October, 1966.

Request No. 10.

Subject: Breakdown of item "Other Expenses" as used in Appendix "B" of the company's brief dated November 8, 1966.

Reference: Pages 1074.

Reply: Appendix X shows a breakdown of the item "Other Expenses" as used in Appendix "B" of the Swift Canadian Co., Limited brief dated November 8, 1966.

Request No. 11.

Subject: Reference Appendix "C" of the company's brief dated November 8, 1966, for the period November, 1964, to date, by periods, give the total cattle slaughtered and estimate percentages, if possible, of choice beef carcasses, and if possible, corresponding related sales dollars for choice carcasses.

Reference: Pages 1076, 1077, S-9, T-1.

Reply: Appendix XI sets forth the number of cattle killed, the number of choice steers killed, the per cent of choice cattle, the average sale price per hundredweight choice and the estimated total dollars received from the sale of choice beef, by weeks, for the period November, 1964-October, 1966.

That, Mr. Chairman, covers the situation to date.

Co-Chairman Senator CROLL: I will call on Mr. Urie first.

Mr. URIE: Mr. Chairman, I think, first, that Mr. Ayers and his associates should be commended for their diligence in providing the answers that were requested by the members of the committee. They have done so very fully, and I am sure the information contained in the supplementary brief will be of great assistance to the committee. However, there are a few things I should like to investigate, and I am sure the members of the committee have some points to bring up as well.

First, Mr. Ayers, if I may, I will refer you to Appendix I of your supplementary brief, and the financial statements for the years 1960 to 1965. Starting with 1960 I would like to have read into the record the gross sales and net profits for the years from 1960 to 1966, and have those net profits related to invested capital. Mr. Ayers, you will recall that during the testimony you gave on November 8 you stated that the percentage shown in your brief at that time—

Co-Chairman Senator CROLL: What is the page?

Mr. URIE: It is on page 1074. In answer to a question from me, Mr. Ayers, you said:

> This percentage return is arrived at by dividing total assets, including cash, accounts receivable, inventories, depreciated value of fixed assets, into net earnings after tax, and multiplying by 100.

That is on page 1074, about ten lines from the bottom. I wonder if you could provide us with information showing your return on investment in relation to invested capital or shareholders' equity, as has been done by other witnesses? We did not ask this specific question, but perhaps this could be calculated.

Mr. AYERS: Do you have that, Mr. Spalding?

Mr. L. V. Spalding, Secretary, Swift Canadian Company Ltd.: No, I do not, but we can get it for you.

Mr. URIE: Perhaps you could give us that in a few minutes?

Mr. SPALDING: Yes.

Mr. URIE: Secondly, I would like to refer to Appendix X of your supplementary brief, which shows a breakdown of the heading "Other Expenses" in your original brief. In particular, I would like to refer you to "Advertising and Promotion". For the year 1960 advertising and promotion is shown as $1,976,000, and it goes through from there to 1965 where it is $2,469,000. In one of your other exhibits you show a breakdown between the two—that is, between advertising and promotion.

Co-Chairman Senator CROLL: Appendix III.

Mr. URIE: Yes, that is Appendix III. I wonder, sir, if you could show what the items are under the heading of "Advertising" in the various years—what amounts were expended on the various media of advertising.

Mr. AYERS: Do you mean as far as radio, television and newspapers are concerned?

Mr. URIE: Yes, and magazines, and so on.

Mr. AYERS: We have not got that breakdown with us; I am sorry.

Mr. URIE: Very well, we will skip that. I am not so much interested in that as I am in promotion. Under the heading of "Sales Promotion" could you give us a breakdown of the various types of sales promotion in which you indulge.

Mr. AYERS: I am sorry, but we did not break this advertising down. I did not realize you wanted that.

Mr. URIE: That is all right, but I am talking about sales promotion now.

Mr. AYERS: I doubt whether we have a breakdown in dollars with us, but I think Mr. Christian has the detail of how this is spent.

Mr. W. P. Christian, General Sales Manager, Swift Canadian Company Ltd.: Included in this area of promotion would be sales—that is, our own salesmen's sales meeting expenses for promoting a product.

Mr. URIE: Who are those sales meetings with?

Mr. CHRISTIAN: With our own people, on one side. This is one type of sales promotion. Another type would be dealer meetings where we present programs to dealers. This would include the purchase of point of sale materials.

Mr. URIE: What do you mean by that?

Mr. CHRISTIAN: Advertising materials that are useful at the retail level to promote the sale of our products—window banners, and things of that nature. It would include the cost of matts and electros used by newspapers to reproduce retail ads—

Mr. URIE: That would be your co-operative advertising?

Mr. CHRISTIAN: Yes, it is part of that program. It would include the store-wide events programs, which are outlined in our exhibit.

Mr. URIE: You are referring to Appendix IV, are you, Mr. Christian?

Mr. CHRISTIAN: That is right. Our own sales incentives are included. In other words, in any sales campaign if a salesman wins a campaign and wins a prize then it would come under this sales promotion expense. I think I have covered the broad area. I may have missed something, but I think I have covered the broad area. Yes, there is also the exhibition advertising expense. This was changed—

Mr. URIE: That is the C.N.E.?

Mr. CHRISTIAN: Yes, and other exhibitions if and when we participate. In earlier years, for our own accounting purposes, the point of sale materials were carried as advertising. Similarly, the expenses with respect to the C.N.E. and other exhibitions were carried as advertising, but somewhere along the line we changed that from advertising to sales promotion.

Mr. URIE: Are you able to give us any figures today, Mr. Christian, as to how much you spent, for example, under your Profit Dividend Plan which is shown on Appendix IV?

Mr. CHRISTIAN: No, I do not have any total figures.

Senator CARTER: May I ask a supplementary question, Mr. Chairman?

Co-Chairman Senator CROLL: Yes.

Senator CARTER: Of all these items you have mentioned, which is the greatest? Does one stand out as being bigger than all the others?

Mr. CHRISTIAN: There are two figures that I can recall. The first is our payments for store-wide events materials, and if my memory serves me correctly, this ran to $100,000. The payments to make available matts and things of that kind ran to something around $50,000. These are the two largest sums that stay in my memory.

Mr. URIE: But, last year there was $991,000 odd spent on sales promotion, so obviously there are many more items included under that heading.

Mr. CHRISTIAN: Yes, the exhibition costs from $50,000 to $75,000.

Mr. URIE: What did you pay to the merchants or retailers for displays in their stores—the aisle and end displays? Is that included in your Appendix IV, the Profit Dividend Plan?

Mr. CHRISTIAN: I am advised that approximately $370,000 is the figure. It would be in this area.

Co-Chairman Mr. BASFORD: I have a supplementary question. Which item in Appendix III is the Profit Dividend Plan of Appendix IV? Which one of the breakdowns that you have there is it in?

Mr. CHRISTIAN: It would be in "Sales Promotion".

Co-Chairman Mr. BASFORD: But of the breakdowns per hundredweight—which item would that be in?

Mr. CHRISTIAN: It would also be under "Promotion costs per cwt."

Mr. URIE: For example, of the $300,000 odd that you spent in cash for the rental of aisle and end displays—

Mr. CHRISTIAN: I do not like to correct you on this, but all of these activities take place at the retail level.

Mr. URIE: For sales promotion, the heading on sales promotion.

Mr. CHRISTIAN: We pay for total performance during that period of time, without separating them.

Mr. URIE: Outside of this plan?

Mr. CHRISTIAN: No, that is within.

Mr. URIE: Within. That is the question on which I was not clear. There are such things as in-store display of all kinds, all included in this profit dividend plan?

Mr. CHRISTIAN: That is correct.

Mr. URIE: And you cannot give us total expenditures at the moment of the amount paid in the various years pursuant to this profit dividend plan?

Mr. CHRISTIAN: No. I gave the figure for 1965 of $370,000.

Mr. URIE: All types of in-store displays, including banners, in-store demonstrations, shelf displays, and all that sort of thing?

Mr. CHRISTIAN: That is right.

Mr. URIE: Is there anything else I have missed?

Mr. CHRISTIAN: I do not know, frankly.

Mr. URIE: Do you give coupons with any of your products for redemption?

Mr. CHRISTIAN: We have had coupons. I do not know of any at the moment.

Mr. AYERS: They are very incidental. We do not issue any coupons at the present time.

Mr. URIE: When did you last have coupons?

Mr. AYERS: About two years ago; we cut them out.

Mr. URIE: You cut them out. Why did you cut them out?

Mr. AYERS: We did not think they paid off.

Mr. URIE: You mentioned incentives, Mr. Christian, a few minutes ago. What are their nature, and how much was spent on them?

Mr. CHRISTIAN: I cannot tell you how much. We prepared a lot of incidental details. But we may have a campaign, such as giving a suit of clothes in a given sales area. We break that down to five or six sales areas in Canada, and therefore have half a dozen suits throughout Canada for our salesmen.

Mr. URIE: Do you mean to encourage them to increase their volume?

Mr. CHRISTIAN: Right, sir.

Mr. URIE: How much did you spend over and above your profit dividend plan with your retailers or co-operative advertisers?

Mr. CHRISTIAN: We have a plan which is available and offered to everybody for case allowance. For example, if the dealer purchases—

Mr. URIE: Is that under your profit dividend plan?

Mr. CHRISTIAN: It is a separate plan, and this money is used by the retailer to do whatever he pleases to promote the sale of that product for such items as canned meats, shortenings, and things of this kind.

Mr. URIE: What do you give them for promoting.

Mr. CHRISTIAN: I beg your pardon?

Mr. URIE: What do you give him, what is the incentive?

Mr. CHRISTIAN: The incentive on Prem is 40 cents a case; the rate on dog food 15 cents a case of 48 tins.

Mr. URIE: Is this type of thing always in existence, always available to any retailer that wants it the year round?

Mr. CHRISTIAN: That is right.

Mr. URIE: How do you insure when you give him these allowances that he in fact spends the money?

Mr. CHRISTIAN: He must first spend the money.

Mr. URIE: He must first spend the money and satisfy you?

Mr. CHRISTIAN: Yes.

Mr. URIE: And then he is reimbursed for it on the basis of your standard form.

Mr. CHRISTIAN: We run a coupon account showing the number of cases purchased and showing the number of dollars which would be accumulated, and as he spends it it is debited to the account.

Mr. URIE: Could you furnish a copy of that plan, sir?

Mr. CHRISTIAN: Yes.

Mr. URIE: May I enter one other field and get away from advertising promotion for a moment. On the question of service charges, with respect to your parent company there is shown on page 6 of your supplementary brief an annual charge on research of about $100,000.

Co-Chairman Senator CROLL: That is Appendix V, is it not?

Mr. URIE: That is right, and it is related to page 6. What I was interested in was B on page 6—or perhaps I had better deal with C first, which reads:

> A charge of $13 per $1,000 on export orders arranged by Swift & Company for shipments to countries other than the U.S.A.

Mr. AYERS: Yes.

Mr. URIE: What were the total exports for areas other than U.S.A. during the year 1965, for example, and how much did you pay by way of service charge for those?

Mr. AYERS: Our sales which were engineered mostly by the U.S.A. during that particular period offshore were $3,317,000.

Mr. URIE: What service charge did you pay?

Mr. AYERS: Approximately $40,000.

Mr. URIE: That was in 1965?

Mr. AYERS: That is right.

Mr. URIE: Would you tell the members of the committee what the other charges of approximately $60,000 included?

Mr. AYERS: I can give you a general statement. Engineering services, such as modernization studies, planning group facilities, equipment, counselling, estimates on buildings, etc., and design. That is one group. Then, general operating, with the operating division; that is, the United States advise our operating

division about operating matters across the country. Consultation and transportation matters. Rate negotiations to our country, U.S.A. Rate analysis and location studies, that is, where we should locate a particular building, and so on. Internal audit division, where they service, as with unit auditing and accounting systems. Credit services, where they help us in credit plans across the country. Services with regard to product testing. Commercial research data. They also furnish us with special programs for training our people in specialized areas in marketing and sales training, and things of that kind.

Mr. URIE: Now, how do they determine the value of those services in dollars; in other words how do they determine the charge to you?

Mr. SPALDING: I think one point you mentioned was, did it have any relation to the North American sales, which it does not. The charges are determined on the basis of their estimated time spent on Canadian affairs—Canadian projects.

Mr. URIE: Who estimates that, sir?

Mr. SPALDING: They do, sir, Swift Company estimates this. Actually they are applying themselves to the task, and they then determine their charges on the basis of the various divisions of the business.

Mr. URIE: So it is not on a per diem or on an hourly basis or fee basis, but on what they consider the services are worth?

Mr. SPALDING: Based on the performance they do for us.

Mr. URIE: Based on the performance they do for you. Are those services performed at your request or are they voluntarily given to you?

Mr. AYERS: Both. We request services, and they will also volunteer.

Mr. URIE: If they volunteer, they charge the same fee or rate or charge as they would if they request the service?

Mr. AYERS: Yes, that is right.

Mr. SPALDING: That is right.

Mr. URIE: Is there any possibility, sir, for you to refuse the services voluntarily given, in order that you can retain more of the earnings of the Canadian operation?

Mr. AYERS: We feel that we can get by with not too heavy a charge basis for what they give.

Mr. URIE: You feel that for 1965, $660,000 is —?

Mr. AYERS: A fair charge for the work they do for us.

Mr. URIE: Do you ever have discussions as to the fairness or adequacy of this charge?

Mr. AYERS: Yes, we have. We review it from time to time.

Mr. URIE: Have they been able to satisfy you?

Mr. AYERS: They have, in every case.

Mr. URIE: Is this charge related in any way to percentage on your Canadian sales?

Mr. AYERS: Not to my knowledge.

Mr. SPALDING: No, sir.

Mr. URIE: May I turn to your Appendix I, the financial statements. For 1960, on your Statement of Income and Accumulated Earnings, Statement 2, page 2, you show that—in addition to the service charge, which I gather in that year was as shown in your supplementary brief—you paid a dividend of $7 million to the parent company. In 1961, in Statement 2, apparently no dividend was paid. Is that correct, sir?

Mr. SPALDING: That is right, sir.

Mr. URIE: In 1963, dividend was declared. I presume it was paid.

Mr. SPALDING: It was paid. It was $200,000 that was paid in that year.

Mr. URIE: $600,000 was declared and only $200,000 was paid?

Mr. SPALDING: The balance was paid in the following year.

Mr. URIE: In the remaining years, 1963 to 1965, inclusive, I have not been able to observe that any dividend of any kind has been paid?

Mr. SPALDING: That is right.

Mr. URIE: The only dividend paid to your parent company during the years 1961, 1963, 1964 and 1965 were the payments which you have shown as service charge?

Mr. SPALDING: That is right.

Mr. URIE: No other payments of any kind?

Mr. SPALDING: Other than payments for products, or materials.

Mr. URIE: Which, Mr. Ayers has pointed out the last time, was purely on a competitive basis. If they could not meet your prices you could get them elsewhere?

Mr. AYERS: That is correct.

Mr. URIE: The only payments made were the service charges—other than in the years mentioned. How was there such a tremendous dividend paid in 1960?

Mr. SPALDING: We do not have the records of previous dividends, but this was an accumulation of earnings, as you can observe, and this was a matter of policy at that time, Mr. Urie.

Mr. URIE: I see. All right, now again on Appendix I, looking at the same Statement of Accumulated Earnings, interest received in 1960, less interest paid, $311,343, Statement 2 of the 1960 statement. I may run through all the amounts in each of the years. The interest received, less interest paid was:

In 1961	$28,502
In 1962	32,617
In 1963	28,747
In 1964	15,870
In 1965	76,918

How were those various figures arrived at and what was the source of the income received? What was the interest paid for?

Mr. SPALDING: That is the interest received.

Mr. URIE: It is a contra account, interest received less interest paid. I would like to know what interest was received and, secondly, what interest was paid?

Mr. SPALDING: In 1960 we had surplus funds available from time to time during the year and these were invested in short term securities, with discounted interests. This was the bulk. In that one year this was pretty well the bulk of the amount you see there.

Mr. URIE: Were the short term securities Canadian short term securities or American?

Mr. SPALDING: Canadian.

Co-Chairman Senator CROLL: Gentlemen, neither Prudential nor Atlantic.

Mr. SPALDING: We are happy about that.

Mr. URIE: I would think so. In the other years they went from $28,000 to $76,000. Is that in each case the same story, that they are the surplus funds?

Mr. SPALDING: Yes. We might have surplus funds for a few weeks or a month and we would invest these with the finance companies, to keep our funds working.

Mr. URIE: Always in Canada?

Mr. SPALDING: Always in Canada, yes, sir.

Mr. URIE: What is the "interest paid" factor there?

Mr. SPALDING: Also, at times, we may have occasion to find ourselves short of funds and have to borrow money. These are payments that we would make. Generally, up to a short time ago or to now, the borrowings had been through our parent company. There is a fairly good reason for that, with the interest rates being lower in the United States than in Canada at that time.

Mr. URIE: I see. I take it, then, that this amount received, the net amount received for interest, will continue to fluctuate from year to year, depending on how much surplus funds you have in Canada?

Mr. SPALDING: Yes, that is correct.

Mr. MCCUTCHEON: Mr. Urie has asked several questions that were uppermost in my mind but I would like to refer to one point. In the 5 year period, I want to be clear on this, you paid $7,600,000 in dividends only—over that 5 year period?

Mr. SPALDING: That is right, sir.

Mr. URIE: $7,200,000. I think, Mr. McCutcheon, he said that in one year it was the "amount declared".

Co-Chairman Senator CROLL: They paid it subsequently.

Mr. MCCUTCHEON: This is the point I want to get clear. It was paid in the following year?

Mr. SPALDING: Yes.

Mr. MCCUTCHEON: So in effect, there was $7,600,000?

Mr. SPALDING: Yes sir.

Mr. MCCUTCHEON: My next question is very basic and fundamental. I would like to ask you, Mr. Ayers, what is the most important factor in the extremely high cost of operation? I am not referring specifically to your operation. We are here to try to find out what is causing this tremendous increase in the cost of living. What, in your opinion, is it?

Mr. AYERS: Labour, as far as I am concerned, a specific cost, if I am to anwer your question correctly.

Mr. MCCUTCHEON: This is the idea. In other words, in your opinion the cost, the ever-increasing cost of labour, is the contributing factor?

Mr. AYERS: It is one of them.

Mr. MCCUTCHEON: Is it the most important?

Mr. AYERS: Of course, in our business, the cost of raw materials enter into that too, that is, the fluctuation in the cost of raw materials, livestock and so on; but in the basic running of the plants, labour is one of the most important.

Mr. MCCUTCHEON: I notice that you have now 55 more employees than you had in 1960. Your figures were:

For 1965	4,977 employees
For 1960	4,922 employees

You have had a $4 million increase in wages and a $44 million increase in sales. I submit that this is a ratio of one to eleven whereas it was one to eight in 1960. Therefore, I cannot agree with your supposition that labour is primarily to blame for this increase in operations.

Mr. AYERS: You see, we have other expenses. No matter what we look at today, practically everything is going up: our supplies, labour, the cost of raw materials. The cost of raw material supplies varies with how the markets are, but

it is the whole bundle of all these things together which has increased the cost, to my way of thinking.

Mr. McCutcheon: In other words, labour alone is not to blame?

Mr. Ayers: It is part of it.

Co-Chairman Senator Croll: Mr. McCutcheon, I note that the previous brief indicates that wages, salaries and employees' benefits totalled 11.9% of net sales last year compared to 12.7 in 1960.

Mr. McCutcheon: Yes, I would like to compliment Mr. Ayers and his company on an obviously fine improvement in productivity, from that standpoint.

I wonder if I might ask you another question in connection with your products, and I am referring specifically now to meat, rather than to fertilizers or any of the other things that you produce. How much of your meat product goes to chain stores?

Mr. Ayers: What percentage?

Mr. McCutcheon: Yes, please.

Mr. Ayers: About 35%. You mean our food products?

Mr. McCutcheon: Yes.

Mr. Ayers: Yes.

Mr. McCutcheon: How much goes to the rest of the retail trade? Would it be 65%?

Mr. Ayers: Sixty-five.

Mr. McCutcheon: Or do you have some for institutional purposes, for example?

Mr. Ayers: Institutions, hotels, restaurants and things of that kind, yes. You see, we have our export portion, our chain store portion, our trade other than chains, and also hotels.

Mr. McCutcheon: Could you give me a percentage on retail trade other than chains?

Mr. Ayers: Mr. Christian, I think, can you give you that better than I can.

Mr. McCutcheon: Thank you.

Mr. Christian: When you separate the various businesses and put retail under one heading, the chain proportion would be approximately 40% and the balance would be 60%

Mr. McCutcheon: And that includes all of the other items that Mr. Ayers mentioned.

Mr. Christian: Outside of exports, yes, taking the retail type outlets.

Mr. McCutcheon: Yes. The biggest single block, then, is your chain store trade?

Mr. Christian: Yes.

Mr. McCutcheon: In other words, then, do they set the price for your products?

Mr. Christian: I think that in reality they represent somewhere around 40% of our total business. 60% of our business is done elsewhere. It is the total flow of product that determines the price of the product. It is simply the amount of product available and the amount of money on the other side of the table to buy that product which determines the price. I very definitely claim that it is nothing more than supply and demand that sets the price of the product, and the chains are certainly part of the demand.

Mr. McCutcheon: In the trade, I have heard the expression "chain store beef". What does that imply?

Mr. CHRISTIAN: It would imply different things to different people, sir. I am not sure that I could give you a specific answer.

Mr. MCCUTCHEON: Is it lower quality?

Mr. CHRISTIAN: For example, in some market areas this would refer to choice beef, Canada Choice. In other market areas it could refer to something else.

Mr. MCCUTCHEON: You refer to Canada Choice. How many grades of choice are there?

Mr. AYERS: Could Mr. Swan answer that question? He is our General Beef, Lamb and Veal Manager. He handles that every day.

Mr. MCCUTCHEON: Fine.

Mr. R. E. Swan, General Beef, Lamb and Veal Manager Swift Canadian Company Limited: To answer that specific question, there is only one grade of choice. Within that grade as such, and we are talking about a Government grade, there are, as you know, the top and the bottom of the grade. There are weight ranges for types within that grade of choice.

Mr. MCCUTCHEON: And this is finally settled on an inspection of the carcass.

Mr. SWAN: By whom?

Mr. MCCUTCHEON: By Government graders?

Mr. SWAN: That is right.

Mr. MCCUTCHEON: In other words, when your buyer buys that animal alive, he has to, by his skill, figure out the "cutability" of it, and whether he is going to make a profit by buying that particular animal. There is a bit of a risk there for you. Is this correct?

Mr. SWAN: Yes, it is more or less on an estimated basis, but it is accurate, I would say, to within 99.8 or 99.9 per cent. It must, of necessity, be accurate, because, when you are buying cattle, 1 per cent off could mean a half a cent a pound, or 60 cents a hundredweight, which is a lot of money in the industry.

Mr. MCCUTCHEON: Yes.

Mr. SWAN: So I would say that when the buyer goes to buy cattle he is pretty well 99.8 or 99.9 per cent right. That is our yardstick.

Mr. MCCUTCHEON: In other words, he sees the live animal and makes a choice on that. You must pay a very good salary to the man who has such a trained eye.

Mr. SWAN: Buying cattle is a profession all its own.

Mr. MCCUTCHEON: Yes. Now, you do not buy bacon or pork that way, do you?

Mr. AYERS: No.

Mr. MCCUTCHEON: In other words, the producer supplies you with a live animal, but you do not have to have that expensive man to judge the animal on the hoof, because the producer does that for you. In other words, when you buy bacon or pork, you know what you are getting, because that is the way you pay for it, on a rail basis. You know exactly what you are getting.

Mr. AYERS: We have our pork man here, Mr. McCutcheon.

Mr. A. H. Beswick, General Processed Meats Manager Swift Canadian Company Limited: I am Alan Beswick, General Processed Meats Manager. This is probably as far from the truth as any statement could be, sir, because we buy

a parcel of hogs. We hope that they are all good hogs, but it is not unreasonable that in a parcel of hogs there could be no good hogs.

Mr. McCUTCHEON: What do you mean "no good hogs"?

Mr. BESWICK: Accepting the fact that a grade A hog in the proper weight range is a good hog, there is nothing to stop us from receiving 50 to 60 hogs, more of which would be grade A or good hogs.

Mr. McCUTCHEON: But you do not pay for grade A hogs.

Mr. BESWICK: I accept this, but, coming back to the statement that we only buy what we want, I want to be clear on that point.

Mr. McCUTCHEON: I did not wish to give that impression. What I wanted to say, and correct me if I am wrong, is that you pay for what you get.

Mr. BESWICK: Yes, sir.

Mr. McCUTCHEON: All right. Now, grade B hogs form much over 50 per cent of the hogs that are sold in the Province of Ontario. Grade A runs from 34 to 45 per cent, so I am told. Can I go to a store and buy some grade B bacon from one of those hogs that sell for $3 per hundredweight less?

Mr. BESWICK: Not identifiably so, but quite possibly so. In grade B hogs, you get bellies that are considered both fancy and non-fancy quality, because grade B runs from 125 pounds, warm dressed weight, up to 180 pounds. I think that is right, without looking. So, with a belly running 13 per cent of a hog's carcass, then, in the case of a 125 pounder you are going to have something like an 18 pound belly. Now, 13 per cent of a 180 pounder is going to give you a heavier belly. Therefore, within this grade B category, there will be little, skimpy bellies and great, fat, broad bellies, and in the middle will be some very acceptable bellies.

So you see, you have grade B hogs by name, but they are grade A according to type. It is usually a matter of overfinish in certain aspects that downgrades the hog. It is not just the weight situation.

Mr. McCUTCHEON: Are you content that our grading standards are what they should be at the moment?

Mr. BESWICK: I find it hard to put a personal opinion on them, but I will say that at the present time the Canadian Swine Council and the meat packing industry are working together to see what can be done to bring about a type of hog grading system that will assure the industry of getting a better type of hog.

I would hate to be asked to define a "better type of hog". However, in this point of time, I believe there are three scientists working in with this group to come up with what is a better type of hog. They are trying to determine what is required in a hog and how the producer can produce it so that he will get the benefit of the improved type of hog.

Since we are participating in this study we feel that a grading at any time has variations and the more specific we can be, the better off the whole industry will be. I don't know whether our grading system is good or bad because there are arguments on both sides.

Mr. McCUTCHEON: When was the last time that there were changes made in the system?

Mr. BESWICK: I don't know.

Mr. McCUTCHEON: You look a young enough fellow. Are you able or are you old enough yourself to tell the Committee what a Wiltshire side is?

Mr. BESWICK: I am not old enough to be able to tell you as of my own experience.

Mr. McCUTCHEON: Does that not date from the time when we had a large export market in England.

Mr. BESWICK: I heard this comment, but I do not agree. The desirability in the Wiltshire is the type of desirability we would like to have still in the Canadian market.

Mr. MCCUTCHEON: This still forms the basis of our grading from our producer?

Mr. BESWICK: It is a matter of where you put the emphasis. Let us say a hog graded A is dressed out at 150 pounds, that would be a pretty desirable hog for commercial use in Canada or for the Wiltshire market.

Mr. MCCUTCHEON: The Americans are doing their best to come up with meat type animals, to coin a phrase. Would not that be a move in the right direction for us? Would it not cut down a lot on duplication and lead eventually to getting a uniform and cheaper product onto the table of the consumer?

Mr. BESWICK: You are dealing with the problem of economics, and I don't know whether I am an expert in the field of what the agricultural colleges and industry are doing in the States. I know a lot of breeding stock being used in achieving this meat type of hog in the States is basic Canadian type hogs. We must also remember they have different climatic conditions there, and so they can grow different types of feed stuffs. For example, they can grow much more corn than we grow here and they can use it as feed and test the reaction.

Mr. MCCUTCHEON: Thank you Mr. Beswick, I would like now to turn to the beef man. Would you like to be able to buy cattle on the same basis that Mr. Beswick can buy his pork?

Mr. SWAN: I have not given that too much thought. We pride ourselves that our standards are reasonably close, 99.9 per cent in our judgment. One of the differences in buying cattle, and I think you are referring to dressed beef—cattle are a little different than hogs, and I am not a hog expert, but you have basically three measures for judging cattle, weight, fat and so on—

Mr. MCCUTCHEON: I might mention something else and that is that the pigment of the hair has something to do with it too—that is as far as hogs are concerned.

Mr. SWAN: You see in cattle you have basically right now—and I am referring back to Government grading—7 grades and within this you have two other grades which are split with three in each. I have the exact gradings here if you would like to hear them. It would be rather difficult for us to deal with all cattle dressed not knowing just what the grading would be. The only alternative would be if there was a buying system devised that we could buy cattle at so much on the rail according to grade. That may come—I don't know.

Mr. MCCUTCHEON: Our committee is charged with looking into costs and we have a broad responsibility. This is mostly to the consumer but we must also have regard for the producer here in Canada. Would it be an economy measure or would it make it easier for the consumer if cattle were sold on the same basis as they sell hogs?

Mr. SWAN: I don't think it would make any difference in the broad sense of buying cattle. I don't think it would make any difference. If you work on the basis of buying the product dressed, I think the same factors would eventually become apparent insofar as the producers are concerned. They know pretty well what their cattle are going to hang up. There are some producers who don't, but most do. That is the reason there are some producers who want to continue to sell live. They pride themselves on being able to judge what their produce will work out at in the form of beef. This is quite a question we are getting into. I would not say this will not come, but right now at the present time I do not think there is any trend towards that, and I don't think it will make any difference in the end cost of the product.

Mr. McCutcheon: Thank you.

Senator McDonald: What percentage of your total cattle sales would you purchase from public markets?

Mr. Swan: Nationally?

Senator McDonald: Yes.

Mr. Swan: Well, this is just an estimate. We probably would purchase around 30 to 40 per cent at market. That is an estimate.

Senator McDonald: What percentage would you buy of live cattle delivered direct to your plant?

Mr. Swan: This varies from plant to plant and from area to area.

Senator McDonald: Of your total purchases across Canada?

Mr. Swan: Anywhere from 5 to 10 per cent—a rough calculation. I cannot be specific or exact. You see we leave that to the individual plants and we do not record that as such.

Senator McDonald: You have 30 to 50 per cent of your trade which you purchase in that fashion. How do you buy the rest? Are they bought rail grade?

Mr. Swan: They are bought in various ways. In some cases they are bought from depots in the West. In some cases our buyers buy them direct. Here in Ontario that is done. And, of course, a lot is done by telephone.

Senator McDonald: What percentage of your total purchases would be rail grade purchased on a rail grade basis?

Mr. Swan: That also varies from plant to plant. I would say the total would be roughtly 15 per cent.

Mr. McLelland: A supplementary question; I am interested in the ProTen meat. I understand Swifts have the right to that, or something along that line. You are not the only company that has it, but you have it.

Mr. Swan: That is right.

Mr. McLelland: You mentioned a moment ago in reply to Mr. McCutcheon that if you bought by sides it would not have much difference in the selling price. Loblaws raised this point in their brief where they said they had one price for regular meat and that ProTen meat was roughly 5¢ a pound dearer than the regular meat selling in their chain stores. I understand in order to make this meat there is an injection into the live animal before slaughter. Could you judge when it is hanging whether you are getting ProTen meat?

Mr. Swan: No, it cannot be identified either live or to the customer.

Mr. McLelland: Do you think this ProTen meat is a major factor in deciding the quality of meat?

Mr. Swan: It does not change the quality of the meat.

Mr. McLelland: It changes the price though.

Mr. Swan: I do not know what you are referring to in so far as the statement you made is concerned. Are you talking about the exact cut, because in ProTen merchandising—

Mr. McLelland: All that meat on that carcass is ProTen meat, is it not?

Mr. Swan: Correct, and it is just the process that gives tenderness. It does not change the characteristic of the beef at all, other than its tenderness.

Mr. McLelland: Is this done under Government veterinarians, or do your buyers go ahead and inject these animals themselves?

Mr. Swan: No, we have experts at each plant trained for giving this injection; they are not veterinarians. It is under the Health of Animals Branch. It is all approved, right the way through.

Mr. McLELLAND: But you, as an expert in your field, could you tell a side of beef that had been injected with this sort of vegetable something-or-other? Could you tell it after slaughter?

Mr. SWAN: No.

Mr. McLELLAND: And no one else could tell it?

Mr. SWAN: No.

Mr. McLELLAND: You take it for granted the injection has been made?

Mr. SWAN: We do not take it for granted; we know, because we have identification.

Mr. ALLMAND: Mr. Ayers, in looking at Appendix IX, which is estimated profit per pound before tax on sliced bacon, which is a monthly tabling, I notice there is quite a swing in your estimated profit and loss from month to month. Is this due to the fact that the prices for hogs vary so much? Is that the reason why your profit varies so much, or what is the cause of this wide variation?

Mr. AYERS: Could I have Mr. Beswick answer that question?

Mr. ALLMAND: Yes.

Mr. BESWICK: I guess this is because we are not as good estimaters of what we should do in our business as we would like to think we are. We buy bellies, and there is a time involvement in procuring them and delivering them, plus a process before they are put into the bacon business. There is a time involvement from when you sell to the time you deliver the finished product.

In the process sometimes you guess really well and you make money; sometimes you do a poor job of guessing and do not make money. We hope that over the year we do make good business decisions, but perhaps not from day to day. Obviously, in the case of bacon we offer for sale today for next week's delivery, some bellies will come off hogs that have not even been marketed yet and the belly market has not been established yet, and the total supply and demand factors which might have an influence when we make delivery have not become effective yet. At any point in time we make a decision on the basis of known factors today, plus anticipated changes in these markets. Sometimes we are right; sometimes we are wrong.

Mr. ALLMAND: Maybe you answered this before, but does your selling price to wholesalers and supermarkets vary from week to week too?

Mr. BESWICK: Yes.

Mr. ALLMAND: It does?

Mr. BESWICK: Yes.

Mr. ALLMAND: So both your buying and selling prices are negotiated from day to day and week to week?

Mr. BESWICK: Yes. Actually, in practice we more often have a selling price that is effective for a week, and the buying prices on raw materials to be used can fluctuate. There could be a range of prices from what the bellies are offered at in the morning to what they are offered at in the afternoon. Tomorrow could be a different kettle of fish as far as supply and demand factors for bellies to be purchased are concerned. I own so many hundred thousand pounds of bellies that cost so much, and I want to make so much profit and sell for so much. It does not work that way, because everybody has different supply and demand factors which are different at different points in time.

Mr. ALLMAND: You say your selling prices are fixed on a weekly basis, more or less?

Mr. BESWICK: Yes. I said, in generalization, we pretty well establish bacon prices once a week, because we have sales units all over the country and communications problems, and because of problems brought about by having different selling prices from Friday to Monday, Monday to Tuesday, Tuesday to

Wednesday it is not an effective way of doing business. Yet we buy hourly and price changes can be hourly.

Mr. ALLMAND: Do you try and aim at a certain profit through bacon over a period of a year, over a period of a month? Does your company get together and say, "For this year we would like to have about a two or three-cent profit per pound over 1966"? Or do you do that each month? Do you try to establish goals for profit margins in bacon on a weekly, monthly or yearly basis, or any basis whatsoever?

Mr. BESWICK: We have an objective, and we have a forecast. Our objective is to make money, but sometimes we will forecast a loss.

Mr. ALLMAND: Is it a set objective?

Mr. BESWICK: No, this is a measurement of what we fell business activity will be in the ensuing period. We do that on an annual basis.

Mr. ALLMAND: Although you make an objective, is it just an objective to make a profit, or a profit in 1966 of, let us say, 2 cents or 3 cents—is there a goal in cents?

Mr. BESWICK: No. Maybe we should set a goal in cents, and it might be more of a target to strive for. We primarily want to make money in this business.

Mr. ALLMAND: If we look at June, 1966 we see you lost almost 8 cents a pound on bacon. I would like to know why you would accept that. How could that come about? Why would you not have increased your price to prevent that loss of 8 cents—7.5 cents per pound?

Mr. BESWICK: You have asked two questions which are not necessarily related. Why we lose money could be for a variety of reasons, and today I would hesitate to give them to you 100 per cent, because I am not sure I know them 100 per cent.

Mr. ALLMAND: I can help you a bit. In the hog prices at market given to us by the Department of Agriculture we can see that in June, 1966 Grade A carcasses were selling for 38.29 cents, which was higher than in May or July, a bit higher. I do not know if that had some effect.

Mr. BESWICK: What the Grade A hog prices are does not mean too much with regard to the selling price of bacon. If we get down to bellies, we will have another situation.

Mr. ALLMAND: Could you give me reasons?

Mr. BESWICK: It could be several things. I do not know the specifics of it. We might have had a serious product loss at one particular plant through poor processing—I do not say this happened. I do not know our particular inventory situation going into June. We may have had bellies worth more than the selling price of bacon would allow us to recover. These are factors that could cause us to sustain a loss.

With respect to the second part of your question—Why did we not raise our prices?—we would be attempting to at this point in time, but if the competitive situation did not permit us to raise our prices, we could not. We are not in this business by ourselves, so we would soon find out if our price was too high.

Mr. ALLMAND: In Appendix VII you have the cost of bellies, and the cost was lower in June than in May.

Mr. BESWICK: This loss could have happened in one week though.

Mr. ALLMAND: What is strange about that is, that period, June, 1966, was one of the highest peaks in consumer food prices. According to the figures we received from the Dominion Bureau of Statistics, June, 1966 was almost the top of the peak period. June, July and August were peak periods for the consumer price index in the last four or five years. I also look at August, 1966. You have a

profit of almost 5 cents per pound on bacon—it is 4.85—so you are here making an extremely high profit per pound. I would like you to explain that.

Mr. BESWICK: If you turn to Appendix VII, page 2, the graph at the bottom of the page and the solid line at the top portion of that bottom graph—

Mr. ALLMAND: Excuse me, I did not hear that.

Mr. BESWICK: It is Appendix VII, page 2.

Mr. ALLMAND: Yes, I have that.

Mr. BESWICK: On the bottom half of that page is a graph. The solid line that superimposes the bottom graph is the line for Swift's premium sliced bacon.

Mr. ALLMAND: At wholesale?

Mr. BESWICK: Yes. Now, you will notice a line of X's. That is the value of U.S. bellies laid down in Toronto. It is in Canadian funds, etc., so it is equivalent to the dashed line, which is equivalent to Canadian bellies in Toronto. We are running into a period here—price adjustments are not easily obtained in our business because when people buy our types of product every day of the week there is a resistance to upward price changes, as you might expect. You have a rather severe upward trend in Canadian bellies taking place prior to this period, and we are not getting immediately a recoverable amount in our premium sliced bacon. If the price of bellies goes up by a dollar then the price of premium bacon has to go up by more than a dollar, because 10 per cent of the belly is skin. In a 100 pounds of bellies you are going to start off with 90 pounds of skinless bellies. There is also going to be anywhere from seven per cent to 12 per cent lost when you trim a belly, because one end is a sort of V-shape, and the other end is the shape of a picnic. You have to reduce this belly into a shape that can be utilized in the production of bacon, and only a portion of a belly can go into rindless and trimmed premium bacon. So, as the price goes up—we would hope that we are able to get this increased differential, and as the price of bellies goes up then the price of sliced bacon has got to go up in a straight line.

But, you cannot do it like that. It takes time to get these price relationships into people's minds so that they accept the fact that the price of bacon is $1.03 or $1.09. If bellies go up 10 cents you cannot immediately get back your 10 cents, but you do hope to get it back at some later date. When the price of bellies comes down we can ride the crest of the wave for a while until we are over-supplied with bellies, and then we have to bring the price of bacon down to the price of the bellies.

Mr. ALLMAND: I am wondering whether your company has ever considered this difficulty in respect of the wide variety of both buying and selling prices, and tried to do something about it. Would you like to see the whole thing changed by having some kind of a marketing system which would endeavour to do away with these wide swings?

Mr. BESWICK: We are a free enterprise company, and we try to run our business. As far as controls are concerned—

Mr. ALLMAND: I do not mean a control on prices.

Mr. BESWICK: We would like to see the supply constant at all times, because then we do not have so many problems. We would not then have to be magicians in guessing at what is going to happen.

Mr. ALLMAND: What has your company done in trying to control supplies so that you will not have these swings in prices.

Mr. BESWICK: I am not an expert in that end of the business. I cannot answer that question.

Mr. ALLMAND: Can anybody in your company answer it?

Mr. AYERS: No, it is pretty hard to answer a question of that kind, Mr. Allmand.

Mr. ALLMAND: Have you ever done any research, either economic or otherwise, which would give you an answer to this?

Mr. AYERS: We have been in business for a long time, and we have not yet come up with an answer.

Mr. ALLMAND: Have you tried to come up with an answer?

Mr. AYERS: Our research department has, but no answers have been forthcoming that I know of. It is a variable situation at all times.

Mr. WHELAN: The broiler producers in Ontario are organized under a marketing board, and this has had some effect towards maintaining stable prices all year round. Would you not agree with that?

Mr. AYERS: It has levelled them out somewhat, yes.

Senator MCDONALD: Would it not be true to say that the two figures that Mr. Allmand was concerned with in June of 1966 and in August of 1966, in respect of one of which you had a loss and in respect of the other you had a profit, would probably bear no relationship to the profit and loss on the sale of bacon in the industry as a whole? These figures apply to just your company?

Mr. BESWICK: Yes.

Senator MCDONALD: Would it not also follow that your competitors also had a loss in June?

Mr. BESWICK: I could not speak to that. I would hope so.

Senator MCDONALD: I would like to know whether you agree with me when I put it to you that it was a peculiar set of circumstances in your company that caused this large loss in June, and not a peculiar set of circumstances in the industry?

Mr. BESWICK: I can only say that from the point of view of our company we do not like to have that kind of a result figure, and we do not have it very often.

Senator MCDONALD: But did you have a very peculiar set of circumstances in your company in June, or was this a set of circumstances in the industry generally?

Mr. BESWICK: I do not know what happened in the industry—

Senator O'LEARY (*Antigonish-Guysborough*): Come on, now. You do not know what happened in the industry?

Mr. BESWICK: In the sliced bacon products in June?

Senator O'LEARY (*Antigonish-Guysborough*): Yes.

Mr. BESWICK: I have no idea. They may have been presented to you, but I am not familiar with them. All I know is that what happened resulted in a loss in our company.

Senator MCDONALD: But you are not prepared to say that this was due to a peculiar set of circumstances in your company rather that in the industry generally?

Mr. BESWICK: I wish I knew what the circumstances were in our company in June to bring this about, because then I would be in a better position to answer your question. What you think is peculiar and what I think is peculiar may be quite different.

Senator MCDONALD: I have no idea of what went on in your company, or in the industry, in June. What I am getting at is that I am inclined to believe that you had some problem in your company in June that was peculiar to your company.

Mr. BESWICK: Yes singly we had a problem. I do not know whether other companies had the same problem.

Co-Chairman Senator CROLL: Surely, when you came up with the figure of minus 7.75 all hell popped loose in your company somewhere, did it not?

Mr. BESWICK: It was not a very pleasant month in which to be around.

Co-Chairman Senator CROLL: So, there was a discussion that took place. What Senator McDonald—and he is a former provincial minister of agriculture—is trying to get at is what were you talking about at that time? What was said about what happened in your company which did not happen in other places? Can you tell us that?

Mr. BESWICK: As I said before, Mr. Chairman—I mentioned some of the things that might have caused this, and I really honestly do not recall the specifics of June.

Senator MCDONALD: But you remember June?

Mr. BESWICK: Yes.

Co-Chairman Senator CROLL: He will never forget it.

Senator CARTER: When you were explaining to Mr. Allmand the fluctuations in your profit and loss you said that the changing set of circumstances in supply and demand, and the time lag between your response to these circumstances, was what really caused these fluctuations?

Mr. BESWICK: That is only one of them, Senator.

Senator CARTER: That is the explanation that I understood you to give.

Mr. BESWICK: I said that there is a time lag. I spent some time discussing the time lag involved in getting the belly market price interpreted, but there are other factors.

Senator CARTER: But, mainly, you said, you had to guess, and sometimes you guessed right and sometimes you guessed wrong. When you guessed right you made money, and when you guessed wrong you lost money?

Mr. BESWICK: That is right.

Senator CARTER: My question is: Over a period of years, and in the same year, as these circumstances keep repeating themselves, surely, a pattern must evolve that can be identified with a certain set of circumstances; is that not correct?

Mr. BESWICK: Yes, within fairly close limits, but when these limits are close and we are right then we can make some money, but when we are wrong we lose money. You are talking about an operation in which a variation of plus or minus one per cent makes the difference between a good operation and a terrible operation. We have charts and graphs, and we never predict them accurately despite repeated attempts.

Senator CARTER: You must have graphs showing all the fluctuations in supply and demand, and what happens to prices, and so forth, over a period of years, so that when this set of circumstances crops up surely it is possible to look back on a chart somewhere in the past and say that this certain thing happened exactly like this at a certain time in the past. You can then see what happened then, and, knowing that and knowing the little differences between the circumstances which obtained then and those that obtain now, take a lot of the guesswork out of your calculations, can you not?

Mr. BESWICK: What emphasis do you put on "a lot"? I guess it does take some, because we certainly use the guidelines that history provides us with, but if you refer to Appendix VII you will notice that there was a combined North American market of 123 million pounds of bellies, whereas in 1966 there was only half of that. In our immediate district there was no real guideline of what would happen this summer, because in two or three years there has been two or three per cent rise in population and a decrease of 10 per cent in marketing. We do not deal in large absolutes as you have seen from our results. One point something per cent in our favour is a lot of money, and one point something

against us is a lot of money. So the guidelines are not precise enough to guarantee a profit. If it were, my work would be easier than it is.

Co-Chairman Senator CROLL: Mr. McCutcheon.

Mr. MCCUTCHEON: This is a supplementary to the subject you were talking about earlier. Was your situation in June aggravated by the poor forecasting in the spring of our Department of Agriculture?

Mr. BESWICK: No. There may have been areas of our business that were aggravated, I do not know, but in the bacon business there is always a supply of bellies. We do not need hogs every day to supply the bacon market.

Mr. MCCUTCHEON: In other words, the fact that we were off by many percentage points in our forecasting makes no difference to you?

Mr. BESWICK: Not in the bacon business. As I have said, there may be areas of our company that may have felt an effect of the forecasting that took place, but in the bacon business, as evidenced in June, this is not a case in point.

Mr. MCCUTCHEON: What put the cost up in the spring? Do you mean that supply and demand does not affect you?

Mr. BESWICK: That is what does affect us, but we can run a bacon business and do have places that do not kill any hogs whatsoever. We do not need hogs, we can get bellies, and we do not need to kill to run a bacon business. So I might say, although the boss will not agree, I could not care less about the hog market, but I do care about the belly market.

Mr. MCCUTCHEON: Well, I think that fellow should have been fired who got you into that mess.

Co-Chairman Senator CROLL: I hope it is not you.

Mr. BESWICK: I don't know; I might find out.

Co-Chairman Senator CROLL: Did I understand you to say in speaking of the bacon market that there was a decrease of 10 per cent in marketing recently?

Mr. BESWICK: This year the hog marketing—

Co-Chairman Senator CROLL: Are you talking about the year or any particular months?

Mr. BESWICK: I will take the whole year. Roughly ten per cent.

Co-Chairman Senator CROLL: Mr. Allmand.

Mr. ALLMAND: In the balance sheet, in your financial statements, which you filed with us as Appendix I, in looking at the different balance sheets I notice that you always have listed under your liabilities a loan account. I was wondering what that meant. Why do you call it "Loan account"?

Mr. SPALDING: This covers any temporary borrowings we might make from our parent company to tide us over a period of time. As I explained to Mr. Urie, we may have to go to our parent company to borrow funds for a short period of time at a lower rate of interest than in Canada. These fluctuate from time to time, they are short term borrowings and they are repaid promptly. We may have to borrow again during the year and may have surplus funds we loan out, as I explained to Mr. Urie.

Mr. ALLMAND: I wanted clarification, that is all.

Mr. URIE: I have one supplementary. What does "Current account" mean?

Mr. SPALDING: That refers to an account that we carry with our home office for charges we make for them and they make to us that are installed at the end of the fiscal year. In other words, we would issue a cheque to them, or they would to us, on a credit or debit plan.

Mr. ALLMAND: That may be on the asset or liability side for any particular year?

Mr. BESWICK: Yes, sir.

Co-Chairman Senator CROLL: Mrs. MacInnis.

Mrs. MACINNIS: I understand, Mr. Ayers, that the largest factor in the rising cost of meat products is labour costs?

Mr. AYERS: One of the largest.

Mrs. MACINNIS: I refer to your financial information, and I find that in 1960 the percentage paid for wages, salaries and benefits was 12.7; in 1961, 12.2; 1962, 12; in 1963, 12; in 1964, 12.3; and in 1965, 11.9. I would like to have your explanation of how labour costs have added to the recent rises in the cost of meat products.

Mr. AYERS: Because our dollar sales go up, which they have done. This figure will come down. This is based on our dollar sales.

Mrs. MACINNIS: I would like to know about other costs. For instance, advertising and promotion, which evidently is not based exactly on the same basis. However, in 1962 we have a figure of $2,146,636, and in 1965, $2,296,161. Would that not be the factor in the rising cost of meat products?

Mr. AYERS: You will notice that we keep our advertising costs mostly steady and they have not advanced very rapidly.

Mrs. MACINNIS: This is quite a sizeable advance.

Mr. AYERS: But the costs of advertising have gone up, too.

Mrs. MACINNIS: Yes, but what I am trying to get at, is it a factor I refer to Appendix III.

Mr. AYERS: Would you re-phrase the question please?

Mrs. MACINNIS: What weight would you give to advertising and sales promotion in the rise in the cost of meat products?

Mr. AYERS: I would give a great deal of weight, because we advertise to increase our sales, which in turn reduces our unit cost and that is the basic reason we advertise.

Mrs. MACINNIS: But in the cost of production, I was wondering how you weigh it in relation to the way prices have gone up.

Mr. AYERS: On a percentage basis it is very, very low, is it not, Mr. Spalding?

Mr. SPALDING: Yes, per hundredweight.

Mr. AYERS: Per hundredweight it is only 22 cents, less than a quarter of a cent a pound. You will notice that in 1962 it was 25 cents, and we reduced that to 22 cents in 1965, so that cost would not be a factor in my mind.

Mrs. MACINNIS: I want to come back to the price of bacon and to refer to Appendix VI. Mr. Beswick pointed out that the price of bacon has to be taken into account with the price of bellies. If you turn to Appendix VI you will find the different prices there for bellies listed, and you will notice that it varies. In 1965 you have three prices, and then in 1966 you have three prices, 33 cents, 55 cents and 45 cents a pound. That is the first thing.

Now, the second thing, in Appendix IX you have the price of bacon per pound before tax on sliced bacon. You say that it fluctuates a great deal, and I don't know if I should take October at 32.6 or some others, but take any one you like in the latter part of this year. I have before me a letter of November 15, from a little place in Nova Scotia. I do not know the place and I do not know the woman who writes, but she says:

> Not long ago I shopped in the chain store at Port Hawkesbury about 5 miles from here. I bought half a pound of bacon at the price of 79 cents which I could not afford as an old age pensioner. Though I have my own

home and I am helped by my family, I still must live carefully and thriftily being 79 years. I was reared in a thrifty age.

She goes on to say that the chain store:

> . . . buys bacon directly from Swift's who pay about 35 cents per pound of a pork carcass.

That would not be relevant. We have the belly prices here, which we just went through. She continues:

> Our village grocer buys from a jobber, who in turn buys wholesale, the latter buys from Swift's.

The price of hog bellies was around those figures that you gave us—45 cents a pound in October. You have an October figure for the profit, before taxes, on sliced bacon, of 3.2 cents profit. This woman in October or early November bought this half pound of Swift's Canadian bacon at 75 cents. What I want to know is, who got her money? You evidently got 3.2 cents, or 4. something cents, depending on whenever she bought it, or when the price was fixed. You could not have got anything more than 4. something cents, anyhow. And this is only a half pound. I do not know what she paid for a pound. 75 cents for a half pound would be quite a sizeable price for a pound down there. Who got her money? That is what I want to know. That is what I am asking you and that is what I want to be able to say to her when I write to her.

Mr. AYERS: I know we did not get her money.

Mrs. MACINNIS: Who got it?

Mr. AYERS: It has got to be a retail price, but all we have in that, as far as October is concerned, is 3.26 cents. What the retailer did, truthfully, I have no idea, but it did not come out of us.

Mrs. MACINNIS: Have you anything whatever to do with setting the retail price?

Mr. AYERS: No, we do not. We quote the retailer and they take it from there.

Mrs. MACINNIS: You think then that the retailer must have got all the money between your five cents, putting it optimistically, and her 79, with a few other little costs taken up. Is that who got it all?

Mr. AYERS: Where I sit, I do not know what happened on a mark-up of that kind. I think you have got to go to the retailer to find that out.

Mrs. MACINNIS: This is what these people want to know. They say it just does not make sense to say that the bacon people are making 3 or 4 cents profit out of this thing. I am not even talking about a pound of bacon, but about half a pound.

Mr. AYERS: You have a jobber involved there in that letter, I think, and a retailer. The minute it leaves our place of business it is completely out of our hands.

Mrs. MACINNIS: You do not know what happens?

Mr. AYERS: Not sitting where I do, I have no idea what happens in a particular store in Nova Scotia.

Mrs. MACINNIS: This is what we want to find out.

Co-Chairman Senator CROLL: Don't you care what happens?

Mr. AYERS: Certainly, we would like to see the right price, that would keep our volume going.

Co-Chairman Senator CROLL: As a matter of fact, here you have a famous well-known product, Swift's. If people are over-pricing it, then are they not hurting you?

Mr. AYERS: They are hurting our volume of our plants, there is no two ways about that. Mr. Christian will answer.

Mr. CHRISTIAN: We are talking retail and not recognizing what expenses go into that product after it left our hands. We are not in a position to evaluate the expenses in any way which would go into that. After all we cannot know what a retailer in Nova Scotia or a jobber in Nova Scotia must recover. He is entitled to make money from his investment.

Mrs. MACINNIS: This is a case of an old lady, an old pensioner. She knows she cannot afford bacon but every once in a while she will want to have a try at bacon, and being a woman she does so. Is there anything you think should be done to try to see to it that this old lady, and people who are on the old age pension, can afford to get bacon. When you know that happens, is it true that you accept no responsibility for the situation at all?

Mr. CHRISTIAN: Responsibility is one thing. I would think that if I were contacting an individual dealer somewhere and I thought that something was wrongly priced, I might draw it to his attention; but as far as influencing that price goes, we have no right to influence the price because we have no knowledge of what expenses he has incurred in marketing that product.

Mrs. MACINNIS: In other words, you do not visualize any possibility of there being any way in which the meat people, you people, the manufacturers, and the other people can get together in some way to make sure there will be a product produced for the end consumer that the consumer can afford? That is not within your range of thinking?

Mr. CHRISTIAN: We are getting into a range of thinking of what a free economy dictates. A free economy dictates the avenues in which we work, and not what happens after the product leaves our hands.

Mrs. MACINNIS: It is not a free economy for the old lady.

Mr. URIE: Is there not some other factor in it, too? Is there not a prohibition against resale price making?

Mr. CHRISTIAN: Yes.

Co-Chairman Senator CROLL: Mr. Christian or someone else said that if they overpriced a product they are likely to hurt your business?

Mr. CHRISTIAN: That is right.

Co-Chairman Senator CROLL: Is there not any way that you watch these various outlets to make sure that they do not overprice the product, because it will affect you?

Senator COOK: There is something we have not got yet. I am not very clear on this. You talk about four cents. How much did you charge the jobber for the bacon, to start off with?

Mr. AYERS: I would have to ask our sales manager.

Mr. CHRISTIAN: I have not any way of knowing specifically. I can give you an idea of what one pound package of bacon is worth at a point of time. I thought you said this was a half pound package?

Mrs. MACINNIS: Yes, a half pound package, 79 cents, Nova Scotia.

Mr. CHRISTIAN: The price of a half pound of bacon is higher than the price of the one pound package.

Senator COOK: We want some idea. You talk about 4 cents. We want some idea of what this would mean for the half pound package.

Mr. AYERS: We can give you a rough idea. If we take this graph.

Mr. CHRISTIAN: No, this is a specialized pack.

Co-Chairman Senator CROLL: They will try to find that out now. I shall repeat my question. If over pricing resulted in harm to your business, do you not

do some investigation to make sure that you are not being over priced out of the market and harmed?

Mr. CHRISTIAN: I think the basic fundamental we have to recognize here is simply the supply and demand on which the retail price is fixed. I feel that the retailer in that market must be right; if the price were too high at the retail level, the people would go elsewhere, on an average, and that would force the retailer to make the price right.

Mrs. MACINNIS: How do you explain that when the income of the people in the Maritimes is so much lower than it is here in Ontario?

Mr. CHRISTIAN: I cannot evaluate that. I know that as far as we are concerned our income level and wage level is not lower.

Mrs. MACINNIS: I am talking about the consumer. This committee is supposed to be for the well-being of the consumer. Sometimes I think we are talking about the well-being of the packing people. It is the consumer we want to protect.

Mr. CHRISTIAN: Our people who live in this area are consumers in this area and I say their rates in that area are not greatly different from the rates elsewhere.

Mrs. MACINNIS: Incomes generally in the Maritimes are lower than incomes in Ontario.

Mr. CHRISTIAN: I do not know that.

Senator CARTER: This transaction which Mrs. MacInnis has described took place on a half pound pack, at Port Hawkesbury.

Mrs. MACINNIS: That is where she bought it. She lived in Marble Mountain.

Senator CARTER: What is your nearest distribution centre to that place?

Mr. CHRISTIAN: There are four in the Maritimes and I would not be certain which one would be closest to Port Hawkesbury.

Senator CARTER: I think someone said there probably was a jobber involved.

Mrs. MACINNIS: That was in the letter. She said:

> Our village grocer buys from a jobber, who in turn buys wholesale, the latter buys from Swift's.

Senator O'LEARY: I suggest very strongly that he would not have to buy from a jobber in that area.

Co-Chairman Senator CROLL: All right. Let us get on. Mr. Basford has a few questions.

Co-Chairman Mr. BASFORD: I would like to ask a few questions about your Appendix IV, Profit Dividend Plan. I will read into the record certain parts of it:

> To qualify for the allowances, customer is required to advertise and promote a minimum of 9 products from 9 different classifications with a minimum of 4 products from four different classifications in group No. 1 thru 12 and a minimum of 4 products from four different classifications in group No. 13 thru 28. The ninth product may be selected from either group.

On the second page of that appendix there is this further paragraph:

> Customer shall send his invoice along with proof of performance covering services, advertising and/or displays to our company at the conclusion of the promotion accompanied by tear sheets of the ad, copies of hand bills, radio and/or television scripts, order guide pages or inserts, whichever applies.

And then:

> This plan is available to all our customers on the basis of 2 promotions per store during the period January 1, 1965 thru December 31, 1965.

How do the independent retailers take advantage of that promotional scheme?

Mr. CHRISTIAN: If they so desire, all they have to do is perform as stated here. In other words, they use whatever method of advertising they care to use. It could be in the form of a hand bill or a window banner, or in any form they choose.

Co-Chairman Mr. BASFORD: What I am saying is that in actual fact very few independent retailers are able at one time to promote indoor promotions on nine different products. I am suggesting that they would be unable to take advantage of this scheme by virtue of their smallness.

Mr. CHRISTIAN: That is correct. It would be more difficult.

Co-Chairman Mr. BASFORD: Therefore, this profit dividend plan is really designed to serve the chain stores.

Mr. CHRISTIAN: When we use the word "chain" we have to be realistic in the sense that there are many people in the retail business besides chains, sir. There are voluntary groups, of which there are several, and there are independents who have banded together to function in the merchandising area as one entity. There are co-operatives, which are comprised also of various retailers who have banded together to function as one entity, so that they are quite able to participate in this program. There are also large independents who use the plan.

Co-Chairman Mr. BASFORD: How does the independent who buys from a jobber or wholesaler take advantage of this plan?

Mr. CHRISTIAN: The practice in the meat industry is that they buy direct from the meat packer. That is the practice. You do get into isolated areas where you have jobbers entering into the picture, but these are very few in number in relation to the total.

Co-Chairman Mr. BASFORD: You are saying that you sell directly to the retailer.

Mr. CHRISTIAN: That is correct.

Co-Chairman Mr. BASFORD: Could you give us a breakdown of your sales to the chains, the voluntary groups and the independents?

Mr. CHRISTIAN: I do not have that specific information, but it could be developed. In this breakdown you would have to relate the voluntary groups along with the others, for the purposes of your discussion. You would relate the two of them together. What I am saying is that the independent can well be taking advantage of the plan through the sponsoring wholesaler.

Co-Chairman Mr. BASFORD: If he is a member of a voluntary group such as IGA.

Mr. CHRISTIAN: IGA, Red & White, or any of the many others.

Co-Chairman Mr. BASFORD: But my proposition is that the advantages of the profit dividend plan are, as a matter of big business, almost impracticable for the independent grocer who is not a member of a chain or a voluntary group.

Mr. CHRISTIAN: Well, when you say that they are "impracticable", the last issue I saw of *Canadian Grocer* indicated that approximately 85 per cent or 86 per cent of the retailers in Canada were either chains of voluntaries, so we are talking about a very large percentage in this area that are able to buy. As I say, I

think it was 85 or 86 per cent, according to the survey made by the grocery magazine.

Co-Chairman Mr. BASFORD: Do you put that forward, then, to say that 85 per cent of the retailers can take advantage of the profit dividend plan and 15 per cent cannot.

Mr. CHRISTIAN: They can take advantage of it through the chains directly or through their sponsoring group. There are certain other large segments, individual independents, which also can take advantage of the plan.

While this plan is available, it does not necessarily mean that they all take advantage of it, and I am referring to voluntary groups as well as to independents. They may elect not to take advantage of the plan. Our terms are fairly stiff; we want a lot of participation for our money.

Co-Chairman Mr. BASFORD: Can you give me some estimate of how many do take advantage?

Mr. CHRISTIAN: I cannot.

Co-Chairman Mr. BASFORD: That surprises me. Surely, when you sit down to make up your budget you must figure what your sales will be and then what costs in the profit dividend plan will be.

Mr. CHRISTIAN: This is done on a regional, area by area basis. In other words, we determine the total budget. The budget is then spread by areas and then the recommendation comes from the respective areas.

Co-Chairman Mr. BASFORD: Yes, and you must have a figure that you work from in order to indicate the percentage of sales to customers and those customers who would take advantage of the profit dividend plan and to whom you would have to pay a dividend.

Mr. CHRISTIAN: It is done on an individual basis.

Co-Chairman Mr. BASFORD: How do you mean it is done on an individual basis?

Mr. CHRISTIAN: If we are successful in selling a retailer the idea of holding a promotion as outlined in this plan, then we work with him to tie up details in respect to his promotion.

Co-Chairman Mr. BASFORD: I recognize that, but surely your comptroller, at the beginning of the year, must be able to make some estimate of what it is going to cost the company in dividends.

Mr. CHRISTIAN: It is historical. We know how much money we have used in the past and we budget on the same or on increased activities.

Co-Chairman Mr. BASFORD: You must know, then, what percentage of sales is not used or not taken advantage of. You must know the percentage of sales in which customers do not take advantage of the profit dividend plan.

Mr. CHRISTIAN: I cannot answer your question. I do not know. Specifically, I do not know.

Co-Chairman Mr. BASFORD: I suggest that you must know. Now, if you know and can do some estimating as to what your sales are going to be, then surely your comptroller must also be able to estimate what it is going to cost him for the profit dividend plan, just as he must know or be able to estimate what it is going to cost him for electricity, labour or any other cost item.

Mr. CHRISTIAN: Excuse me just a moment. I have a little difficulty with your question. I cannot tell you what percentage. I wish I could, but I cannot. I can give you neither the volume nor the percentage involved in this plan.

Co-Chairman Mr. BASFORD: Can I go back, then, to see whether you accept my proposition that the independents who are not members of a chain or voluntary group find the plan impracticable in a business sense. They cannot take advantage of the profit dividend plan.

Mr. CHRISTIAN: Not really. It is not the impracticality of it so much as the fact that on an average it is, perhaps, not the way the retailer likes to do business.

There are large independents or medium size independents that do participate in the plan. On the other hand, you do get into the area of people who are not interested in doing any of these things. There is just no way to sell the plan to them. They do not want the plan.

Co-Chairman Mr. BASFORD: What is the meaning of the paragraph in the plan which says:

> The allowances under this plan are in addition to any advertising agreement between Swift and the customer in effect on individual products.

What sort of agreements would those represent?

Mr. CHRISTIAN: That is the case of the per case allowance program we talked about earlier: 20 cents on Prem, and 15 cents on Pard. We can give you that information here.

Co-Chairman Mr. BASFORD: There are separate promotional allowances for those products.

Mr. CHRISTIAN: Right.

Co-Chairman Mr. BASFORD: As I recall your earlier evidence, referring to Appendix III, Advertising and Promotion, for sales promotion you spent $991,000, $370,000 of which was spent under the Profit Dividend Plan. Where was the other $600,000 spent?

Mr. CHRISTIAN: I explained some of it. So far as the actual details are concerned, I do not have them. We did tell you that something over $100,000 went to purchase point of sale materials. Additional money went in support of our activity at the Canadian National Exhibition. Different money was spent on salesmen's prizes, and additional money was spent on salesmen's meetings and dealer meetings.

Co-Chairman Mr. BASFORD: Do you offer any volume discounts?

Mr. CHRISTIAN: We have a price structure that gives recognition of the size of order. The smaller the order the higher cost of servicing that order and the higher the price. The larger the order within certain limits the lower the price. That is generally speaking. I think that just about explains the pattern—the cost of servicing a small order is extremely high and this must be recovered in the cost of the product.

Co-Chairman Mr. BASFORD: Does that mean you give volume discounts?

Mr. CHRISTIAN: Quantity discounts, yes. That is as far as the individual dealer is concerned. For example, we do not give our large price quantity discount as such. He is on a large volume list.

Co-Chairman Mr. BASFORD: They would have a special price?

Mr. CHRISTIAN: Each group has a special price. Each section of the trade whether it be large, medium or small would be dealt with according to the size of the purchase. If a purchaser grows from a small purchaser to a large purchaser he qualifies for the large dealer price.

Co-Chairman Mr. BASFORD: I take it the chain stores are large dealers?

Mr. CHRISTIAN: Yes.

Co-Chairman Mr. BASFORD: And they have better prices.

Mr. CHRISTIAN: All dealers or voluntary groups might have the same price. We make it a practice to deal with competing purchasers alike.

Co-Chairman Mr. BASFORD: How many new products have you introduced this year, if any?

Mr. CHRISTIAN: About three I can think of readily.

Co-Chairman Mr. BASFORD: Which are they?

Mr. CHRISTIAN: Lazy Maple Bacon, Prem spread, Sugar plum hams. I think that is as far as new products are concerned.

Co-Chairman Mr. BASFORD: Are they included in the profit dividend plan?

Mr. CHRISTIAN: No. That is something you would find under item 21, smoked ham. Sugar plum ham is a Swift Premium ham.

Co-Chairman Mr. BASFORD: I see; then when your general salesmen went to Dominion Stores to sell Maple Bacon, what deal was made as to how that was listed in Dominion Stores? What deal did you make with Dominion Stores to get that into Dominion Stores?

Mr. CHRISTIAN: We would quote Dominion Stores as we would quote any other store at that time. We would try to sell them the idea that it was a good product with good flavour and that it had been consumer tested and found to be desirable and a good item for them to have in the store.

Co-Chairman Mr. BASFORD: Was that arranged by your office listing?

Mr. CHRISTIAN: No.

Co-Chairman Mr. BASFORD: Did you arrange with any of the chains for these products to have what is called a head office listing?

Mr. CHRISTIAN: No, that is done area by area.

Co-Chairman Mr. BASFORD: They have all been manager options?

Mr. CHRISTIAN: Yes. As far as I know that is the case. The individual store does not do the buying in many of these cases. The area manager would make the decision.

Co-Chairman Mr. BASFORD: That is what I would call a head office listing.

Mr. CHRISTIAN: It could be, but I am not aware of it as such. Because one area of Dominion purchased that product from us, it does not necessarily follow that all areas will do so. We would have to carry the story to the individual district people to get their decision.

Co-Chairman Mr. BASFORD: But was the decision made at district level?

Mr. CHRISTIAN: As far as I know it was made at district level, yes.

Co-Chairman Mr. BASFORD: By the buying committee?

Mr. CHRISTIAN: Yes.

Co-Chairman Mr. BASFORD: I would like to know whether in listing and getting Maple bacon into the store whether you started with a price list, and if that was the price list you ended up with?

Mr. CHRISTIAN: The price of Lazy Maple Bacon is directly related to Swift Premium Bacon and would be subject to the same variations. If the bacon were on an upward scale in the pricing, Lazy Maple Bacon would be on an upward scale too.

Co-Chairman Mr. BASFORD: What is Prem spread?

Mr. CHRISTIAN: It is a sandwich type meat spread. This is a refinement made into the spread for easy spreading.

Co-Chairman Senator CROLL: It is easy to see you were not overseas. We ate it until it came out of our ears.

Co-Chairman Mr. BASFORD: How did you get that into Dominion Stores?

Mr. CHRISTIAN: I cannot tell you at this point of time whether it is in there or not.

Co-Chairman Mr. BASFORD: Well in getting into any of the chain stores, did you offer any special volume discounts?

Mr. CHRISTIAN: I don't know, but it is a canned food item and it is quite conceivable that an allowance would be applied to it.

Co-Chairman Mr. BASFORD: On this new product?

Mr. CHRISTIAN: Right.

Co-Chairman Mr. BASFORD: Do you ever offer to any of the chain stores any cash allowance for them to list your new product?

Mr. CHRISTIAN: Anything we offer is an AP 101 allowance which is an advertising allowance offered to anybody. We may elect to have an introductory offer or an allowance. This same allowance would be made available to everybody.

Co-Chairman Mr. BASFORD: Would there be any credit memos issued to any of the chain stores for taking this product?

Mr. CHRISTIAN: I don't quite know what you are saying, sir.

Co-Chairman Mr. BASFORD: Well, would your seller in meeting with the buying committee offer to issue any credit memos on any goods they might buy?

Mr. CHRISTIAN: How they would list payment for their advertising activity—the use of credit to their account or a cheque which they would use—that would not make too much difference as far as we were concerned. We would generally issue a cheque, but if somebody said they would like it applied to their account we would prefer it that way.

Co-Chairman Mr. BASFORD: Would there be any offers to exchange the goods for other Swift's premium products in case they did not sell?

Mr. CHRISTIAN: No, at no time do we sell goods on consignment. This is what you are suggesting.

Co-Chairman Mr. BASFORD: Could you supply me with all the aspects of the arrangements made to have Prem spread listed in Dominion Stores, Loblaws, Steinbergs, Canadian Safeway, Woodwards, Eatons and A&P?

Mr. CHRISTIAN: Very good.

Co-Chairman Mr. BASFORD: I just have one other question. Appendix I—which is your financial statement for the fiscal years 1960-65—I take it this is the first time this has been released to the public?

Mr. AYERS: It was released to this committee.

Co-Chairman Senator CROLL: This is a public hearing.

Co-Chairman Mr. BASFORD: By releasing it to the committee, it becomes public information.

Mr. AYERS: Yes.

Co-Chairman Mr. BASFORD: You did that voluntarily. I wonder if you have any reservations about doing that.

Mr. AYERS: We were asked, and we volunteered to release information.

Co-Chairman Mr. BASFORD: There is an issue in front of this committee which was before the 1959 Royal Commission, that there should be better and more accurate and more detailed reporting by companies involved in the food business as to their operations. This, of course, has been an issue before this committee, and I'm wondering whether you would like to make any comment on that, seeing that heretofore no one in Canada has known anything about Swift Canadian Co. Limited as to its sales and profits, and now they do.

Mr. AYERS: I would rather not comment on that at this time, Mr. Basford.

Co-Chairman Mr. BASFORD: Thank you.

Mr. JOYAL: Mr. Ayers, I am just mildly intrigued. If you will refer to the record of the proceedings when you first appeared, at page 1044, line 8, this was a statement made by Mr. Medland, taken from the brief:

> Swift Canadian Co., Limited does not carry on business in Canada through subsidiaries and has no voting interest in any other company which is actively engaged in business,. . .

Has it any voting interest in any other company which is not actively engaged in business?

Mr. AYERS: No.

Mr. JOYAL: So, this is just loose language?

Mr. AYERS: We do not have any interest in any other company.

Mr. JOYAL: Whether holding or operating?

Mr. AYERS: No, sir.

Mr. JOYAL: Next, your auditor's report indicates that for the fiscal year ending, I believee, October 29, 1964—

Mr. AYERS: Maybe I have misunderstood your question. We have two subsidiaries in Canada—G. H. Hammond Co. (Canada) Limited and Union Packing Co. (Canada) Limited.

Mr. JOYAL: Your brief specifies that.

Mr. AYERS: Yes.

Mr. JOYAL: Your auditor's report discloses that for the fiscal year ending October, 1964, I believe, that you transferred the pension fund of your Canadian officers and employees from the parent company to the Canadian company, is that correct?

Mr. AYERS: That is right.

Mr. JOYAL: How much has accumulated in that fund to date?

Mr. SPALDING: I cannot tell you the exact figures.

Mr. JOYAL: Well, round figures, please.

Mr. SPALDING: I could give you a little background.

Co-Chairman Senator CROLL: Go ahead.

Mr. SPALDING: Over a good many years the employees of the Swift Canadian Co. Limited in Canada were included in the Swift & Company pension plan, as this was indicated. But with the implementation of the Ontario legislation on pensions it was decided that because of the various deferred pension clauses with regard to the Ontario Pension Benefits Act we should have our own Swift Canadian Co. Limited pension plan for our own hourly-paid and salaried employees.

At December 31, 1964 we transferred the funds—you might call them the accumulated funds, and I cannot tell you the exact sum because I do not have it in my memory—from the Swift & Company Pension Trust which we had at that time, and we had an ancillary trustee in Canada to whom we were actually paying the funds but, nevertheless, it was still part of the Swift & Company trust. So we transferred these funds to our own two new pension plans or pension trusts—one for the hourly-paid and one for the salaried employees—and both plans are exactly the same, there is no difference, and the break-up of the fund was done on an actuarial basis.

Mr. JOYAL: So the auditor indicates.

Mr. SPALDING: Yes.

Mr. JOYAL: In that trust setting up this pension fund, are there limitations in regard to the area within which your portfolio of investments may be created?

Are they wholly or exclusively in Canadian securities, or partly in others as well?

Mr. SPALDING: I would say the great majority is in Canadian securities. The trust company we have has the full right to invest these funds any way they wish to.

Mr. JOYAL: You are saying the majority of these investments are in Canadian securities?

Mr. SPALDING: Yes, they are. There are many areas.

Mr. JOYAL: Referring to Appendix III, advertising and promotion, for the years 1962 to 1965, four annual periods, you show an increase in sales of 16 per cent. You also show an increase in advertising and sales promotion of only 7 per cent. In other words, the increase in your advertising and promotion costs have not been on parity with your increase in sales. Would you indicate, Mr. Ayers, as to whether your name is so well accepted now in the community that you can, I suppose, spend relatively less on advertising or promotions; or is it because you are enjoying such a buoyant general demand for your products?

Mr. AYERS: We appraise our situation each year, and we try to buy the best advertising media we can at the least possible dollars. So that each spring, when we make up our budget for advertising, we go through all the processes of what we will do and how we will advertise, and we come up with what we think will be a fair and equitable program. It can increase some years and decrease others, but we demand that the agency give us the very best advertising program we can possibly get for the money we are investing, and that is why we vary it.

Mr. JOYAL: You might recall some evidence that was given to this committee earlier on the advertising index over the past five years—and this includes radio, television, newspapers, periodicals and magazines. They have shown their own price indix increased, I think, to 27 per cent. This would indicate, of course, even more so a gradual decline in your advertising expense, is that correct?

Mr. AYERS: A gradual "decline" in our advertising expense?

Mr. JOYAL: Yo uare getting less coverage?

Mr. AYERS: There is a gradual incline in advertising expense, so we are getting less coverage but are trying to buy a better program to offset that difference.

Mr. JOYAL: The other thing I would like, even at the risk of cluttering up the record, is: Earlier Mr. Urie had asked if you would prepare your profit figures, not based on the formula you had given us earlier, which was the total of the assets divided into your net profits multiplied by 100, but your return on investment, based on the percentage of your net profits after taxes, divided into your total investment capital, paid-up capital, plus undistributed or accumulated profits. Have you those figures now?

Mr. SPALDING: Yes, I have, sir.

Mr. JOYAL: Could you read them into the record, please?

Mr. SPALDING: 1960—as you know, I calculated these on a slide rule so they might be out a point or two—8.5; 1961, 2.9; 1962, 4.5; 1963, 2.5; 1964, 6.5; and 1965, 6.1.

Mr. JOYAL: That is all, thank you, Mr. Chairman.

Co-Chairman Senator CROLL: Have you a question, Senator Carter?

Senator CARTER: Yes, Mr. Chairman, I have one or two short questions. Mr. Ayers, in how many different size packages do you put up bacon?

Mr. AYERS: Two—the half pound size and the one pound size. That is, for sliced bacon for the retail trade.

Senator CARTER: Yes. What is the most popular size?

Mr. AYERS: The most popular size—the ratio is 85 to 15. Eighty five per cent of the one pound size to 15 per cent for the half pound size.

Senator CARTER: You put up more bacon in the one pound size package?

Mr. AYERS: Yes.

Senator CARTER: That is the consumers' preference?

Mr. AYERS: Yes, it is the consumers' preference. That is how the consumer picks up our bacon in the stores.

Senator CARTER: There would be no point in calculating these figures that you give us in Appendix IX on a half pound basis, but what I want to find out is when you calculated this estimated profit or loss per pound was it calculated on your total sales for the year?

Mr. AYERS: Mr. Beswick, will you answer that?

Mr. BESWICK: You will note, senator, that we have headed it up "Estimate", and if I can refer you for a moment—I do not know the page in the printed copy of the proceedings, but we did mention that we spent a great deal of soul-searching in order to come up with these figures. A portion of this profit is represented by the bellies that we get from our hogs. A portion of this profit and loss is in the sales department, and then there is the profit and loss in the bacon department itself. This goes on right through from the buying to the selling, and if we could have broken the figure down more specifically we would have done so.

Senator CARTER: It is an estimated profit on an estimated cost? You do not know how the various proportions of cost were made up?

Mr. BESWICK: No.

Senator CARTER: But when you arrived at it you must have had some figure in front of you. You certainly had some figure representing a number of pounds.

Mr. BESWICK: Of bacon?

Senator CARTER: Yes.

Mr. BESWICK: Yes.

Senator CARTER: Were those total sales of bacon?

Mr. BESWICK: Yes.

Senator CARTER: And that is across Canada?

Mr. BESWICK: Yes.

Senator CARTER: So these figures might not necessarily—these are true for Canada as a whole on these particular dates?

Mr. BESWICK: That is right.

Senator CARTER: But on any particular date in different parts of Canada they might be quite different?

Mr. BESWICK: Yes.

Senator CARTER: So that when you lost nearly 8 cents a pound in June, 1966 it does not follow that you lost 8 cents a pound down in the Maritimes, let us say?

Mr. BESWICK: This is the total for the company.

Senator CARTER: Yes. I just wanted to clarify what these figures meant.

Mr. URIE: Arising out of Mrs. MacInnis' questions—and this is not in the form of a question, Mr. Chairman—I think I should read into the record a short compilation of figures that have been brought out before the members of this committee from time to time, by both individual packers including Swifts and the Dominion Bureau of Statistics, to show the various percentages of increase in costs and prices. Perhaps, Mr. Ayers and Mr. Beswick might have a comment to make after I have read them.

Now, these are Toronto prices using as a base the average prices in May of 1965, and comparing those prices with those in February, June and September of 1966 at Toronto.

Grade A carcasses of hogs in May, 1965 averaged in price $30.46. Canadian bellies at that time were $33. The wholesale price of bacon was 72.6 cents, although Swift's price was actually 70 cents. The retail price of bacon in that month was 97.4 cents, on the average.

Now, taking February, 1966, Grade A carcasses were $43.19, an increase of 41.7 per cent. Canadian bellies in that month ranged from $55 to $51, an increase of approximately 66 per cent. The wholesale price of bacon was 92.7 cents on the average, an increase of 27.6 per cent. The retail price of bacon was $1.49, or an increase of 53.1 percent.

In June of 1966, grade A carcasses averaged in price at Toronto $38.29, or an increase of 25.7 per cent over May of 1965. That price was down a bit in February. Canadian bellies were about the same, $54.50 to $52, an increase of approximately 60 per cent over May of 1965. The wholesale price of bacon was 91.9 or 92 cents, an increase of 26.6 per cent over May of 1965. The retail price of bacon was $1.38, or an increase of a little over 41 per cent.

In September—I think it was at about this time that the Canada Packers strike was on—Grade A carcasses were $33.92, or 11.3 per cent over the price in May, 1965. Bellies were still high, ranging from $54 to $50.50, or approximately 66 per cent over the price in May, 1965. The wholesale price of bacon had risen to $1.01 an increase of 38 per cent, while the retail price of bacon was $1.54, an increase of about 59 per cent.

Have you any comment to make with respect to any of those figures in the light of the questions Mrs. MacInnis put to you?

Mr. AYERS: I would like Mr. Beswick to answer that.

Mr. BESWICK: Well, we are looking at four distinct areas here. I would like to leave out the Grade A carcasses, before I say anything—

Mr. URIE: Yes, that is right. I just wanted you to have the complete package.

Mr. BESWICK: I would like to leave out the retail prices because I am not a retail expert. So far as Canadian bellies and bacon are concerned—

Mr. URIE: Might I point out to you, Mr. Beswick, before you answer, that the price to you of Canadian bellies was up 66 per cent, apparently, and you, in fact, increased your wholesale price of bacon only 38 per cent. What does that indicate to you?

Mr. BESWICK: Well, there appears on the surface to be a little disparity, but we are talking here about bellies that are 100 per cent of a commodity, and we are taking a portion of the belly business—I am assuming from the figures you read that they are comparable to what we call Swift's Premium, which constitutes only 60 per cent of the bacon portion of the belly. What happened to the balance—the other 40 or 45 per cent—of the belly? What happened to the skin market. The skins constitute 10 per cent, and of the skinless bellies only 40 per cent is Swift's Premium bacon. The rest is something else. I do not have enough information here to adequately give an opinion.

Mr. URIE: Most of this information with respect to bellies came from your own presentation. Can I ask you if this indicates to you that a considerable portion of the increase has benefited the retailer other than the packer in the eventual price of bacon? This is what it indicates, I am sure to most of the members of this committee.

Mr. BESWICK: I have no idea of what has happened to his costs.

Mr. JOYAL: Let us be candid here.

Mr. BESWICK: I am being candid.

Mr. JOYAL: Where does the profit spread come in? Was it between the wholesaler and the retailer, or was it between the retailer and the poor consumer at the very end?

Mr. BESWICK: If I can be candid I will say that this is an unfair question to ask me, because I really have no idea as to what has happened in respect to the expenses of running a chain store. I did not know it before, and I do not know it today.

Co-Chairman Senator CROLL: All Mr. Urie asked you to do was to plead not guilty.

Mr. AYERS: We are not guilty.

Co-Chairman Senator CROLL: What he said, in effect, was—he gave you the figures and the facts. I might mention that he spent all night working on these, so he knows what he is talking about. He says: It does not look as though you have your hand all the way to the elbow into the pot? And you argue with him. You are not prepared to accept it.

Mr. BESWICK: I accept it.

Co-Chairman Senator CROLL: Yes, now you do.

Senator COOK: Were these Toronto figures?

Co-Chairman Senator CROLL: Yes, he said they were Toronto figures. He started with that.

Mr. URIE: Thank you, Mr. Beswick, you may retire. I have a brief question, Mr. Ayers, to get back to the question of dividends. You pointed out in your previous testimony as the result of questioning I put to you that there was $7,600,000 in dividends paid since 1960 to your parent company, and that only in two years out of the six years. In 1960 your accumulated earnings were approximately $20 million. In 1962 your accumulated earings amounted to approximately $15,600,000, and in 1965 they increased to approximately $17,600,000. Does that indicate that your company has declared or will declare a dividend during the year 1966 to your parent company?

Mr. AYERS: We will not.

Mr. URIE: Is the board of directors of your Canadian company composed of directors of your American company or only of people who are solely connected with your Canadian operations?

Mr. AYERS: They are composed of both.

Mr. URIE: What is the proportion?

Mr. AYERS: There are two Canadian directors that are Canadians. There are six American directors. However, of the eight, five reside and work in Canada.

Mr. URIE: Have you had your annual meeting this year?

Mr. AYERS: No, not yet.

Mr. URIE: So the position of your corporation is that notwithstanding the fact that your accumulated earnings have risen to a figure substantially greater than 1962 but less than 1960 you will not be declaring a dividend in favour of your American company.

Mr. AYERS: Yes, because we re-invest our money in Canada.

Mr. URIE: You mentioned earlier today that whether or not a dividend was declared was in accordance with company policy. Is that dictated by the local directors or by the parent company?

Mr. AYERS: By our board of directors here.

Mr. URIE: One further question, and this is only for reading into the record; that is, the information which our colleague mentioned a moment ago with respect to return on investment. If I may refer you to Appendix B in your original submission, you show return on investment there calculated on a differ-

ent basis. In 1960 it is 6.8 per cent, and calculated as you gave it to us today, 8.5 per cent; in 1961, 2.3 per cent, and today 2.9 per cent; 1962, 3.6 per cent, and according to the new calculation 4.5 per cent; in 1963, 1.9 per cent, and today's calculation 2.4 per cent; in 1964, 5.1 per cent, and today's calculation 6.5 per cent; and in 1965, 4.6 per cent, and today's calculation 6.1 per cent. Thank you.

Co-Chairman Senator CROLL: Mr. Whelan?

Mr. WHELAN: First of all, I would like to get something clear in my mind. You, Mr. Chairman, and one other member, I believe Mrs. MacInnis, made the statement that we should be asking or inquiring into what the sales price of a product should be.

Co-Chairman Senator CROLL: No, that is a wrong interpretation. What Mrs. MacInnis suggested, and I also suggested, was that an observant eye might be kept on what should be done to their product so as not to hurt the business.

Mr. WHELAN: I would like to ask the Swift people, do you own feed companies and fertilizer companies, and are you not in a preferred position as against some of the other companies that are not subsidiaries in having the advantage of using your by-products or waste products?

Mr. AYERS: Only a small amount of our animal protein goes into our animal feeds. We sell that not only to our feed mills but to other companies as well.

Mr. WHELAN: Do you have contracts with hog producers who have to sell those products to your company?

Mr. AYERS: Yes.

Mr. WHELAN: Do you own any farms of your own?

Mr. AYERS: We do not own any farms.

Mr. WHELAN: Do you rent any farms?

Mr. AYERS: We rent three for turkey production.

Mr. WHELAN: How much of your turkey production would be in relation to your over all buying of turkeys?

Mr. AYERS: A very small percentage.

Mr. WHELAN: Ten per cent?

Mr. AYERS: It would not be that.

Mr. WHELAN: Thank you.

Co-Chairman Senator CROLL: Mr. McLelland.

Mr. MCLELLAND: I have one question to add to an earlier one. I have raised a lot of cattle and sold and bought them. One thing amazed me. I have had buyers from Swift Canadian come to me and never heard them say, "If you do the injecting of the animal yourself under government inspection we will give you $16 per head more. How much does it cost Swift Canadian to get this injection made to the live animal?

Mr. SWAN: I do not quite understand the question.

Mr. MCLELLAND: You mentioned earlier that you had this done under your supervision and said quite determinedly that you knew the injections were made to the animal, you could not tell by the carcass hanging up or by inspection, but you do it yourself.

Mr. SWAN: That is right.

Mr. MCLELLAND: Supposing Swift comes to the farmer and says, "We will buy a certain number of steers and they will be slaughtered in two days, and have your injections done tomorrow." It should be done so many hours before slaughter.

Mr. SWAN: We don't specifically know they are going to be used for Pro-ten and that is what we are referring to.

Mr. McLELLAND: How much does it cost you to have that injection done to one of those animals?

Mr. SWAN: Precisely our expenses are about 1½ cents a pound.

Mr. McLELLAND: That is $6 for a 400 pound carcass?

Mr. SWAN: The research that has been spent on it has been tremendous, the cost of our solution, labour costs, equipment costs, all added up, and there are certain factors in there.

Mr. McLELLAND: One and a half cents, is that dressed?

Mr. SWAN: Dressed.

Mr. McLELLAND: That is $6 for a 400 pound carcass?

Mr. SWAN: That is right.

Mr. McLELLAND: The first profit there is on that one thing, $6; that is $10 the very minimum.

Mr. SWAN: Do you say we make $10?

Mr. McLELLAND: Taking four cents a pound—

Mr. SWAN: No, you said that is four cents a pound difference.

Mr. McLELLAND: Well, approximately.

Mr. SWAN: There again, you are talking about retail through chains.

Mr. McLELLAND: Yes, through retail.

Mr. SWAN: We cannot relate that back. In actual practice we charge on a 400 pound carcass only $8.

Mr. McLELLAND: To the retailer?

Mr. SWAN: To the retailer.

Mr. McLELLAND: In other words, he makes a little bit.

Mr. SWAN: I don't know that specifically.

Mr. McLELLAND: It has been indicated that Swift's do not care about the retailer, that what he does afterwards is his business.

Mr. SWAN: That is true.

Mr. McLELLAND: Now, one more question. Your advertising of Butterball turkeys—actually there is no butter in the turkey, is there?

Mr. AYERS: It is just a name.

Mr. McLELLAND: A woman looks at two turkeys, one says it is Butterball and the other says something else. She might say "I might as well pay a cent more for this, as it already has butter on".

I have one more question. Per dollar of product bought, where is the more profit—in pork or beef— per dollar invested in the product?

Mr. AYERS: It would vary from year to year.

Mr. McLELLAND: Do you ever realize more profit on beef than on pork?

Mr. AYERS: Very seldom. At times we will, but in the long pull I would say there is a better return on the hog.

Mr. McLELLAND: Do you put out in your yearly statements something showing that some years you have made more money on beef per dollar than on hogs?

Mr. AYERS: We do not put out an annual statement.

Mr. McLELLAND: Your shareholders are not interested in where you make the money, as long as you make it. They are not interested in whether you make it on pork or beef?

Mr. AYERS: We do not issue an annual statement. We do not bring that out.

Mr. McLELLAND: You cannot give me an answer?

Mr. AYERS: I can refer you from year to year. Some years we do better on pork and some years better on beef.

Mr. MCLELLAND: That is the closest I can get to finding out whether you make one per cent more on pork or on beef. You cannot say?

Mr. AYERS: No.

Mr. URIE: I understand you have three grades of bacon.

Mr. AYRES: We have more than that.

Mr. BESWICK: In our proprietary brands we have Swift's Premium, Swift's Eversweet, Swift's Empire, Swift's Diamond A and pork ends and pieces, and bacon scraps.

Mr. URIE: In what order of gradation are they?

Mr. BESWICK: In the order I gave. That is generally accepted.

Mr. URIE: Is there any other indication on the package as to the grade it is, other than the name?

Mr. BESWICK: Just the price we ask for it and the advertising put behind Swift's Premium. That is all.

Mr. URIE: The only way the housewife can see whether it is Grade 1 or Grade 4 would be by examination of the price or if she knew it by name?

Mr. BESWICK: They have been on the market for years and years. We feel it is pretty well established.

Mr. URIE: Is there a reason why you cannot label the packages with grade numbers, 1, 2, 3, 4?

Mr. BESWICK: There is no mechanical reason.

Senator COOK: It is not romantic enough.

Mr. URIE: There have been many complaints to members of the committee that to the average person, other than looking at the price, they are indistinguishable. Apparently it has been felt that there should be some indication of responsibility by the packer as to the grade. I am not suggesting that you as a firm should do something that your competitors do not have to do. But if there were a regulation prescribing that you had to indicate the grade?

Mr. BESWICK: We accept this responsibility in the brands that we put out. For some reason—it can happen—bacon gets out into a brand that we feel it should not be in. In that case, we stand behind it 100 per cent.

Mr. URIE: You will agree that unless the consumer is aware that Swift's Premium is better than one of the others that you mentioned, There is no way for her to know. Surely the numbers 1, 2, 3 and 4 would be an indication which would be more accurate?

Mr. BESWICK: She sees them in the counter side by side. I would think she would be able to modify the brand impression we may have made, plus the price impression, and really get the message.

Mr. URIE: It really boils down to price?

Mr. BESWICK: And brand. We are proud of our brand and have spent much over the years in putting it forward. We feel that Swift's Premium bacon is the finest bacon available.

Mr. URIE: You do not advertise the others?

Mr. BESWICK: No.

Mr. URIE: So as betweeen the top grade, Swift's Premium, and the other grades—?

Mr. BESWICK: The packs are different.

Mr. URIE: It may be that some consumer service could provide this service to the consumer.

Co-Chairman Senator CROLL: Mr. Ayers, I want to thank you, on behalf of the committee, for the further information that you brought to us. It has been very useful and helpful. We did not expect you to have an answer to all the questions. We understand that you will send in those answers to Mr. James as soon as you can. All of this information has been most useful and we very much appreciate it.

The committee adjourned.

APPENDIX I

SWIFT CANADIAN CO., LIMITED

FINANCIAL STATEMENTS

FISCAL YEARS

1960 TO 1965 INCLUSIVE

SWIFT CANADIAN CO., LIMITED

FINANCIAL STATEMENTS

PERIOD OCTOBER 31, 1959

TO OCTOBER 29, 1960

STATEMENT 1

SWIFT CANADIAN CO., LIMITED
(A Private Company incorporated under the laws of Canada)

BALANCE SHEET

October 29, 1960

ASSETS

CURRENT ASSETS:			
Cash		$ 445,546	
Accounts and notes receivable—			
Trade (less reserve of $8,078)	$ 6,960,670		
Other	63,253		
		7,023,923	
Inventories valued at the lower of cost or market value or at approximate market value where cost not ascertainable (see note 1 on statement 3 attached)—			
Products	$ 10,212,464		
Ingredients and supplies	1,339,476		
		11,551,940	
Prepaid insurance, taxes, etc.		202,496	
			$ 19,223,905
INVESTMENT AND OTHER ASSETS:			
Government of Canada bonds		$ 14,925	
Mortgage receivable		70,000	
			84,925
FIXED ASSETS at cost (per statements 4 and 5 attached):			
Land		$ 487,743	
Buildings	$ 13,979,023		
Less accumulated depreciation	6,893,901		
		7,085,122	
Machinery, equipment, etc.	$ 19,112,104		
Less accumulated depreciation	14,116,538		
		4,995,566	
			12,568,431
			$ 31,887,261

LIABILITIES

CURRENT LIABILITIES:			
Bank overdraft			$ 12,041
Accounts payable—			
Trade	$ 1,803,320		
Other	130,839		
			1,934,159
Payable to parent company, Swift & Company (Illinois)—			
Current account (U.S. $85,960)	$ 84,983		
Loan account	1,500,000		
			1,584,983
Accrued liabilities—			
Taxes—general	$ 193,771		
Wages	1,473,278		
Other	53,386		
			1,720,435
Provision for taxes on income			984,595
			$ 6,236,213
CAPITAL STOCK AND ACCUMULATED EARNINGS:			
Capital stock—authorized and issued 120,000 shares of $100 each	$ 12,000,000		
Accumulated earnings—(per statement 2 attached)	13,641,048		
			25,641,048
			$ 31,877,261

On behalf of the Board:

Director

Director

(See notes to financial statements)

To the Shareholders of
Swift Canadian Co, Limited:

We have examined the balance sheet of Swift Canadian Co., Limited at October 29, 1960 and the related statement of income and accumulated earnings for the period from October 31, 1959 to October 29, 1960 and have obtained all the information and explanations we have required. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet and statement of income and accumulated earnings are properly drawn up so as to exhibit a true and correct view of the state of the affairs of Swift Canadian Co., Limited at October 29, 1960 and the results of its operations for the period from October 31, 1959 to October 29, 1960, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year, according to the best of our information and the explanations given to us and as shown by the books of the company and the certified returns from branches.

ARTHUR YOUNG, CLARKSON, GORDON & CO.

Toronto, Canada,
November 24, 1960.

STATEMENT 2

SWIFT CANADIAN CO., LIMITED

STATEMENT OF INCOME AND ACCUMULATED EARNINGS FOR THE FIFTY-TWO WEEKS ENDED OCTOBER 29, 1960

Sales, including service revenues		$190,577,471
Interest received less interest paid		311,343
Gain on disposal of fixed assets		40,252
Profit on exchange		23,054
		$190,952,120
Less:		
Cost of sales and services including cost of raw materials and processing supplies but excluding the charges set out below (see notes 1 and 2 on statement 3 attached)	$ 170,998,396	
Selling and administrative expenses	11,966,863	
Depreciation (see note 3 on statement 3 attached)	1,761,550	
Taxes (other than income taxes)	798,371	
Contribution to Swift and Company pension trust	940,603	
Provision for doubtful accounts, net	79,022	186,544,805
Net income for the year before income taxes		$ 4,407,315
Federal income taxes	$ 2,017,498	
Provincial income taxes	209,872	2,227,370
Net income for the year		$ 2,179,945
Accumulated earnings, October 31, 1959		18,461,103
		$ 20,641,048
Dividends paid		7,000,000
Accumulated earnings, October 29, 1960		$ 13,641,048

(See notes to financial statements)

STATEMENT 3

SWIFT CANADIAN CO., LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE FIFTY-TWO WEEKS ENDED OCTOBER 29, 1960

1. *Basis of valuing inventories*

Cost of the inventory of ingredients and supplies has been determined on a first-in first-out basis.

Cost of the inventory of products has been determined on a modified last-in first-out basis. Under the company's method, cost is first computed on a first-in first-out basis and this figure is reduced by reference to the increase in inventory prices of a basic quantity of inventory since the end of a base period. (For most products the base period is the four fiscal years 1936 to 1939 inclusive.) Since the amount of such reduction would not be deductible for income tax purposes it is reduced by the current effective rate of income tax (approximately 50.6 per cent) and the reduction is accordingly 49.4 per cent of the price increase computed in this manner.

2. *Inter-company profits and losses*

The amount of inter-company profit or loss included in the statement of income and accumulated earnings (and in the opening and closing inventories) is neither determinable nor significant.

3. *Depreciation, depletion, obsolescence and amortization*

(a) Depreciation is calculated on the net book value of the assets at the end of the year (except depreciation on leasehold interest which is calculated on the gross book value) at the following rates:

Normal depreciation—

Buildings	5%
Machinery	20
Office furniture and fixtures	20
Office machinery	20
Delivery equipment	30
Leasehold interest	10

Double depreciation—

In addition to depreciation at the normal rates shown above additional depreciation is provided on the cost of buildings subject to double depreciation at the rate of 2½ per cent.

(b) The cost of a fixed asset disposed of is eliminated from the asset account and the difference between the cost and proceeds of disposal is charged to accumulated depreciation except to the extent that such proceeds exceed the original cost of the asset (or the depreciated cost at October 30, 1948 if the asset had been acquired prior to that date). Any excess of the proceeds of disposal over original cost (or the depreciated cost at October 30, 1948 of an asset acquired previously thereto) is credited to profit and loss.

(c) No intangible assets are recorded in the books of the company.

(d) Maintenance, repairs and renewals are charged against operations at the time that expenditures are incurred.

SWIFT CANADIAN CO., LIMITED

FINANCIAL STATEMENTS

PERIOD OCTOBER 29, 1960 TO OCTOBER 28, 1961

STATEMENT 1

SWIFT CANADIAN CO., LIMITED

(A Private Company incorporated under the laws of Canada)

BALANCE SHEET

October 28, 1961

ASSETS			LIABILITIES		
CURRENT ASSETS:			CURRENT LIABILITIES:		
Cash		$ 607,815	Accounts payable—		
Accounts and notes receivable—			Trade	$ 2,163,495	
Trade (less reserve of $5,722)	$ 7,715,441		Other	170,288	
Other	76,995				$ 2,333,783
		7,792,436	Payable to parent company, Swift & Company (Illinois)—		
Inventories valued at the lower of cost or market value or at approximate market value where cost was not ascertainable (see note 1 on statement 3 attached)–			Current account (U.S. $82,244)	$ 84,814	
Products	$ 10,913,989		Loan account	2,600,000	
Ingredients and supplies	1,326,279				2,684,814
		12,240,268	Accrued liabilities—		
Prepaid insurance, taxes, etc.		208,156	Taxes—general	$ 201,558	
		$ 20,848,675	Wages	1,403,838	
			Other	19,687	
					1,625,083
			Provision for taxes on income		420,328
					$ 7,064,008
INVESTMENTS AND OTHER ASSETS:					
Government of Canada bonds		$ 14,925			
Mortgage receivable		64,705			
		79,630	CAPITAL STOCK AND ACCUMULATED EARNINGS:		
			Capital stock—authorized and issued 120,000 shares of $100 each	$ 12,000,000	
FIXED ASSETS, at cost:			Accumulated earnings—(per statement 2 attached)	14,401,004	
Land		$ 489,254			26,401,004
Buildings	$ 14,285,182				
Less accumulated depreciation	7,282,513				
		7,002,669			
Machinery, equipment, etc.	$ 19,926,185				
Less accumulated depreciation	14,881,401				
		5,044,784			
		12,536,707			
		$ 33,465,012			$ 33,465,012

On behalf of the Board:

Director

Director

(See notes to financial statements)

To the Shareholders of
Swift Canadian Co., Limited:

We have examined the balance sheet of Swift Canadian Co., Limited at October 28, 1961 and the related statement of income and accumulated earnings for the period from October 29, 1960 to October 28, 1961 and have obtained all the information and explanations we have required. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet and statement of income and accumulated earnings are properly drawn up so as to exhibit a true and correct view of the state of the affairs of Swift Canadian Co., Limited at October 28, 1961 and the results of its operations for the period from October 29, 1960 to October 28, 1961, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year, according to the best of our information and the explanations given to us and as shown by the books of the company and the certified returns from branches.

ARTHUR YOUNG, CLARKSON, GORDON & CO.

Toronto, Canada,
November 23, 1961.

STATEMENT 2

SWIFT CANADIAN CO., LIMITED

STATEMENT OF INCOME AND ACCUMULATED EARNINGS FOR THE FIFTY-TWO WEEKS ENDED OCTOBER 28, 1961

Sales, including service revenues		$188,895,845
Interest received less interest paid		28,502
Gain on disposal of fixed assets		21,290
Profit on exchange		27,494
		$188,973,131
Less:		
Cost of sales and services including cost of raw materials and processing supplies but excluding the charges set out below (see notes 1 and 2 on statement 3 attached)	$ 171,550,546	
Selling and administrative expenses	12,197,368	
Depreciation (see note 3 on statement 3 attached)	1,770,222	
Taxes (other than income taxes)	763,906	
Contribution to Swift and Company pension trust	900,911	
Provision for doubtful accounts, net	35,222	
		187,218,175
Net income for the year before income taxes		$ 1,754,956
Federal income taxes	$ 895,000	
Provincial income taxes	100,000	
		995,000
Net income for the year		$ 759,956
Accumulated earnings, October 29, 1960		13,641,048
Accumulated earnings, October 28, 1961		$ 14,401,004

(See notes to financial statements)

STATEMENT 3

SWIFT CANADIAN CO., LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE FIFTY-TWO WEEKS ENDED OCTOBER 28, 1961

1. *Basis of valuing inventories*

Cost of the inventory of ingredients and supplies has been determined on a first-in first-out basis.

Cost of the inventory of product has been determined on a modified last-in first-out basis. Under the company's method, cost is first computed on a first-in first-out basis and this figure is reduced by reference to the increase in inventory prices of a basic quantity of inventory since the end of a base period. (For most products the base period is the four fiscal years 1936 to 1939 inclusive.) Since the amount of such reduction would not be deductible for income tax purposes it is reduced by the current effective rate of income tax (approximately 50.9 p. cent) and the reduction is accordingly 49.1 p. 100 of the price increase computed in this manner.

2. *Inter-company profits and losses*

The amount of inter-company profit or loss included in the statement of income and accumulated earnings (and in the opening and closing inventories) is neither determinable nor significant.

3. *Depreciation, depletion, obsolescence and amortization*

(a) Depreciation is calculated on the net book value of the assets at the end of the year (except depreciation on leasehold interest which is calculated on the gross book value) at the following rates:

Normal depreciation—

Buildings	5%
Machinery	20
Office furniture and fixtures	20
Office machinery	20
Delivery equipment	30
Leasehold interest	10

Double depreciation—

In addition to depreciation at the normal rates shown above additional depreciation is provided on the cost of buildings subject to double depreciation at the rate of 2½ per cent.

(b) The cost of a fixed asset disposed of is eliminated from the asset account and the difference between the cost and proceeds of disposal is charged to accumulated depreciation except to the extent that such proceeds exceed the original cost of the asset (or the depreciated cost at October 30, 1948 if the asset had been acquired prior to that date). Any excess of the proceeds of disposal over original cost (or the depreciated cost at October 30, 1948 of an asset acquired previously thereto) is credited to profit and loss.

(c) No intangible assets are recorded in the books of the company.

(d) Maintenance, repairs and renewals are charged against operations at the time that expenditures are incurred.

SWIFT CANADIAN CO., LIMITED

FINANCIAL STATEMENTS

PERIOD OCTOBER 28, 1961 TO OCTOBER 27, 1962

STATEMENT 1

SWIFT CANADIAN CO., LIMITED

(A Private Company incorporated under the laws of Canada)

BALANCE SHEET

October 27, 1962

ASSETS

CURRENT ASSETS:			
Cash		$ 1,869,580	
Accounts and notes receivable—			
Trade (less allowance of $11,771)	$ 7,907,525		
Other	56,124		
		7,963,649	
Inventories valued at the lower of cost or market value or at approximate market value where cost was not ascertainable (see note 1 on statement 3 attached)—			
Products	$ 11,073,456		
Ingredients and supplies	1,291,982		
		12,365,438	
Prepaid insurance, taxes, etc.		197,877	
			$ 22,396,544
INVESTMENTS AND OTHER ASSETS:			
Government of Canada bonds		$ 14,925	
Mortgage receivable		58,235	
			73,160
FIXED ASSETS, at cost:			
Land		$ 514,921	
Buildings	$ 14,262,484		
Less accumulated depreciation	7,605,287		
		6,657,197	
Machinery, equipment, etc.	$ 19,968,967		
Less accumulated depreciation	15,483,507		
		4,485,460	
			11,657,578
			$ 34,127,282

LIABILITIES

CURRENT LIABILITIES:			
Accounts payable—			
Trade	$ 2,073,223		
Other	140,562		
			$ 2,213,785
Payable to parent company, Swift & Company (Illinois)—			
Current account (U.S. $26,385)	$ 28,364		
Loan account	2,000,000		
			2,028,364
Accrued liabilities—			
Taxes—general	$ 206,827		
Wages	1,423,594		
Other	10,425		
			1,640,846
Provision for taxes on income			815,178
Dividend payable			400,000
			$ 7,098,173
CAPITAL STOCK AND ACCUMULATED EARNINGS:			
Capital stock—authorized and issued 120,000 shares of $100 each	$ 12,000,00		
Accumulated earnings—(per statement 2 attached)	15,029,109		
			27,029,109
			$ 34,127,282

On behalf of the Board:
Director
Director

(See notes to financial statements)

Auditors' Report

To the Shareholders of
Swift Canadian Co., Limited:

We have examined the balance sheet of Swift Canadian Co., Limited at October 27, 1962 and the related statement of income and accumulated earnings for the period from October 28, 1961 to October 27, 1962 and have obtained all the information and explanations we have required. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet and statement of income and accumulated earnings are properly drawn up so as to exhibit a true and correct view of the state of the affairs of Swift Canadian Co., Limited at October 27, 1962 and the results of its operations for the period from October 28, 1961 to October 27, 1962, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year, according to the best of our information and the explanations given to us and as shown by the books of the company and the certified returns from branches.

ARTHUR YOUNG, CLARKSON, GORDON & CO.

Toronto, Canada,
November 27, 1962.

STATEMENT 2

SWIFT CANADA CO., LIMITED

STATEMENT OF INCOME AND ACCUMULATED EARNINGS FOR THE FIFTY-TWO WEEKS ENDED OCTOBER 27, 1962

Sales, including service revenues		$201,598,276
Interest received less interest paid		32,617
Gain on disposal of fixed assets		25,362
Profit on exchange		32,774
		$201,689,029
Less:		
Cost of sales and services including cost of raw materials and processing supplies but excluding the charges set out below (see notes 1 and 2 on the statement 3 attached)	$ 183,122,275	
Selling and administrative expenses	12,610,639	
Depreciation (see note 3 on statement 3 attached)	1,646,390	
Taxes (other than income taxes)	826,788	
Contribution to Swift and Company pension trust	925,480	
Provision for doubtful accounts, net	39,959	
		199,171,531
Net income for the year before income taxes		$ 2,517,498
Federal income taxes	$ 1,155,415	
Provincial income taxes	133,978	
		1,289,393
Net income for the year		$ 1,228,105
Accumulated earnings, October 28, 1961		14,401,004
Dividend declared		$ 15,629,109 600,000
Accumulated earnings, October 27, 1962		$ 15,029,109

(See notes to financial statements)

STATEMENT 3

SWIFT CANADIAN CO., LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE FIFTY-TWO WEEKS ENDED OCTOBER 27, 1962

1. *Basis of valuing inventories*

Cost of the inventory of ingredients and supplies has been determined on the first-in first-out basis.

Cost of the inventory of products has been determined on a modified last-in first-out basis. Under the company's method, cost is first computed on a first-in first-out basis and this figure is reduced by reference to the increase in inventory prices of a basic quantity of inventory since the end of a base period. (For most products the base period is the four fiscal years 1936 to 1939 inclusive.) Since the amount of such reduction would not be deductible for income tax purposes it is reduced by the current effective rate of income tax (approximately 51%) and the reduction is accordingly 49% of the price increase computed in this manner.

2. *Inter-company profits and losses*

The amount of inter-company profit or loss included in the statement of income and accumulated earnings (and in the opening and closing inventories) is neither determinable nor significant.

3. *Depreciation, depletion, obsolescence and amortization*

(a) Depreciation is calculated on the net book value of the assets at the end of the year (except depreciation on leasehold interest which is calculated on the gross book value) at the following rates:

Normal depreciation—

Buildings	5%
Machinery	20
Office furniture and fixtures	20
Office machinery	20
Delivery equipment	30
Leasehold interest	10

Special depreciation—

Additional depreciation at 50% of the normal rates shown above may, under certain circumstances, be claimed by the company in computing its taxable income. Such additional depreciation is recorded in the company's books and in the 1962 fiscal year amounted to $87,687.

(b) The cost of a fixed asset disposed of is eliminated from the asset account and the difference between the cost and proceeds of disposal is charged to accumulated depreciation except to the extent that such proceeds exceed the original cost of the asset (or the depreciated cost at October 30, 1948 if the asset had been acquired prior to that date). Any excess of the proceeds of disposal over original cost (or the depreciated cost at October 30, 1948 of an asset acquired previously thereto) is credited to profit and loss.

(c) No intangible assets are recorded in the books of the company.

(d) Maintenance, repairs and renewals are charged against operations at the time that expenditures are incurred.

SWIFT CANADIAN CO., LIMITED

FINANCIAL STATEMENTS

YEAR END ENDED OCTOBER 26, 1963

STATEMENT 1

SWIFT CANADIAN CO., LIMITED
(A Private Company incorporated under the laws of Canada)

BALANCE SHEET
October 26, 1963

ASSETS				LIABILITIES		
CURRENT ASSETS:				CURRENT LIABILITIES:		
Cash		$ 1,523,535		Accounts payable—		
Accounts and notes receivable—				Trade	$ 2,126,355	
Trade (less allowance of $7,632)	$ 8,167,425			Other	150,090	
Other	51,318					$ 2,276,445
		8,218,743		Payable to parent company, Swift & Company (Illinois)—		
Inventories valued at the lower of cost or market value or at approximate market value where cost was not ascertainable (note 1)—				Current account (U.S. $89,182)	$ 95,966	
Products	$12,054,823			Loan account	2,700,000	
Ingredients and supplies	1,358,248					2,795,966
		13,413,071		Accrued liabilities—		
Prepaid insurance, taxes, etc.		234,196		Taxes—general	$ 205,382	
			$23,389,545	Wages	1,499,672	
				Other	322,154	
						2,027,208
				Provision for taxes on income		312,557
						$ 7,412,176
INVESTMENTS AND OTHER ASSETS:						
Government of Canada bonds		$ 14,925		CAPITAL STOCK AND ACCUMULATED EARNINGS:		
Mortgage receivable		52,227		Capital stock—authorized and issued 120,000 shares of $100 each	$12,000,000	
			67,152	Accumulated earnings (statement 2)	15,706,999	
						27,706,999
FIXED ASSETS, at cost:						
Land		$ 535,717				
Buildings	$14,551,280					
Less accumulated depreciation	7,991,771					
		6,559,509				
Machinery, equipment, etc.	$20,868,137					
Less accumulated depreciation	16,300,885					
		4,567,252				
			11,662,478	On behalf of the Board:		
				Director		
			$35,119,175	Director		$35,119,175

(See notes to financial statements)

Auditors' Report

To the Shareholders of
Swift Canadian Co., Limited:

We have examined the balance sheet of Swift Canadian Co., Limited at October 26, 1963 and the related statement of income and accumulated earnings for the fiscal year (52 weeks) then ended and have obtained all the information and explanations we have required. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet and statement of income and accumulated earnings are properly drawn up so as to exhibit a true and correct view of the state of the affairs of Swift Canadian Co., Limited at October 26, 1963 and the results of its operations for the fiscal year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year, according to the best of our information and the explanations given to us and as shown by the books of the company and the certified returns from branches.

Toronto, Canada,
November 26, 1963.

ARTHUR YOUNG, CLARKSON, GORDON & CO.
Chartered Accountants.

STATEMENT 2

SWIFT CANADIAN CO., LIMITED

STATEMENT OF INCOME AND ACCUMULATED EARNINGS FOR THE YEAR (52 WEEKS) ENDED OCTOBER 26, 1963

Sales, including service revenues		$203,128,328
Interest received less interest paid		28,747
Profit on exchange		16,689
		$203,173,764
Less:		
Cost of sales and services including cost of raw materials and processing supplies but excluding the charges set out below (notes 1 and 2)	$ 185,520,868	
Selling and administrative expenses	12,811,583	
Depreciation (note 3)	1,637,909	
Taxes (other than income taxes)	803,632	
Contribution to Swift & Company pension trust	940,095	
Provision for doubtful accounts, net	(3,210)	
		201,710,877
Net income before income taxes		$ 1,462,887
Federal income taxes	$ 736,000	
Provincial income taxes	83,000	
		819,000
Net income		$ 643,887
Special items:		
Gain on disposal of fixed assets	$ 196,797	
Less additional income taxes and interest paid in respect of re-assessment of prior years' taxes	162,794	
		34,003
Net income and special items (net) transferred to accumulated earnings		$ 677,890
Accumulated earnings, October 27, 1962		15,029,109
Accumulated earnings, October 26, 1963		$ 15,706,999

(See notes to financial statements)

STATEMENT 3

SWIFT CANADIAN CO., LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED OCTOBER 26, 1963

1. *Basis of valuing inventories*

Cost of the inventory of ingredients and supplies has been determined on a first-in first-out basis.

Cost of the inventory of products has been determined on a modified last-in first-out basis. Under the company's method, cost is first computed on a first-in first-out basis and this figure is reduced by reference to the increase in inventory prices of a basic quantity of inventory since the end of a base period. (For most products the base period is the four fiscal years 1936 to 1939 inclusive.) Since the amount of such reduction would not be deductible for income tax purposes it is reduced by the current effective rate of income tax (approximately 51 per cent) and the reduction is accordingly 49 per cent of the price increase computed in this manner.

2. *Inter-company profits and losses*

The amount of inter-company profit or loss included in the statement of income and accumulated earnings (and in the opening and closing inventories) is neither determinable nor significant.

3. *Depreciation, depletion, obsolescence and amortization*

(a) Depreciation is calculated on the net book value of the assets at the end of the year (except depreciation on leasehold interest which is calculated on the gross book value) at the following rates (with minor exceptions):

Buildings	5%
Machinery	20
Office furniture and fixtures	20
Office machinery	20
Delivery equipment	30
Leasehold interest	10

(b) The cost of a fixed asset disposed of is eliminated from the asset account and the difference between the cost and proceeds of disposal is charged to accumulated depreciation except to the extent that such proceeds exceed the original cost of the asset (or the depreciated cost at October 30, 1948 if the asset had been acquired prior to that date). Any excess of the proceeds of disposal over original cost (or the depreciated cost at October 30, 1948 of an asset acquired previously thereto) is credited to profit and loss.

(c) No intangible assets are recorded in the books of the company.

(d) Maintenance, repairs and renewals are charged against operations at the time that expenditures are incurred.

SWIFT CANADIAN CO., LIMITED

FINANCIAL STATEMENTS

FISCAL YEAR ENDED OCTOBER 31, 1964

SWIFT CANADIAN CO., LIMITED — STATEMENT 1

(A Private Company incorporated under the laws of Canada)

BALANCE SHEET

October 31, 1964

ASSETS				LIABILITIES		
CURRENT ASSETS:				CURRENT LIABILITIES:		
Cash		$ 2,654,948		Accounts payable—		
Accounts and notes receivable—				Trade	$ 2,365,611	
Trade (less allowance of $2,849)	$ 9,122,398			Other	197,034	
Other	74,460					$ 2,562,645
		9,196,858		Payable to parent company, Swift & Company (Illinois)—		
Inventories valued at the lower of cost or market value or at approximate market value where cost was not ascertainable (note 1)—				Loan account	$ 2,000,000	
Products	$12,214,153			Less current account	1,351	
Ingredients and supplies	1,267,714					1,998,649
		13,481,867		Accrued liabilities—		
Prepaid insurance, taxes, etc.		285,285		Taxes—general	$ 297,830	
			$25,618,958	Wages	1,788,422	
				Other	12,159	
INVESTMENTS AND OTHER ASSETS:						2,098,411
Government of Canada bonds		$ 14,925		Provision for taxes on income		1,416,663
Mortgage receivable		45,965				$ 8,076,368
			60,890	CAPITAL STOCK AND ACCUMULATED EARNINGS:		
FIXED ASSETS, at cost:				Capital stock—authorized and issued 120,000 shares of $100 each	$12,000,000	
Land		$ 546,532		Accumulated earnings (statement 2)	17,619,295	
Buildings	$14,959,864					29,619,295
Less accumulated depreciation	8,379,630					
		6,580,234		On behalf of the Board:		
Machinery, equipment, etc.	$21,833,858			Director		
Less accumulated depreciation	16,944,809					
		4,889,049		Director		
			12,015,815			
			$37,695,663			$37,695,663

(See notes to the financial statements)

ARTHUR YOUNG, CLARKSON, GORDON & CO.
CHARTERED ACCOUNTANTS
15 Wellington Street West
Toronto 1, Canada

AUDITORS' REPORT

To the Shareholders of
Swift Canadian Co., Limited:

We have examined the balance sheet of Swift Canadian Co., Limited at October 31, 1964 and the related statement of income and accumulated earnings for the fiscal year (53 weeks) then ended and have obtained all the information and explanations we have required. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet and statement of income and accumulated earnings are properly drawn up so as to exhibit a true and correct view of the state of the affairs of Swift Canadian Co., Limited at October 31, 1964 and the results of its operations for the fiscal year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year, according to the best of our information and the explanations given to us and as shown by the books of the company and the certified returns from branches.

ARTHUR YOUNG, CLARKSON, GORDON & CO.
Chartered Accountants.

Toronto, Canada.
November 27, 1964.

STATEMENT 2

SWIFT CANADIAN CO., LIMITED

STATEMENT OF INCOME AND ACCUMULATED EARNINGS

for the fiscal year (53 weeks) ended October 31, 1964

Sales, including service revenues		$215,361,653
Interest received less interest paid		15,870
Profit on exchange		15,655
		215,393,178
Less:		
Cost of sales and services including cost of raw materials and processing supplies but excluding the charges set out below (notes 1 and 2)	$194,483,879	
Selling and administrative expenses	13,540,185	
Depreciation (note 3)	1,718,443	
Taxes (other than income taxes)	914,701	
Contribution to Swift & Company pension trust	1,003,367	
Provision for doubtful accounts, net	28,248	
		211,688,823
Net income before income taxes		3,704,355
Federal income taxes	1,583,000	
Provincial income taxes	209,000	
		1,792,000
Net income		1,912,355
Special items:		
Gain on disposal of fixed assets	1,846	
Less additional income taxes and interest paid in respect of re-assessment of prior years' taxes	1,905	
		(59)
Net income and special items (net) transferred to accumulated earnings		1,912,296
Accumulated earnings, October 26, 1963		15,706,999
Accumulated earnings, October 31, 1964		$ 17,619,295

(See notes to financial statements)

SWIFT CANADIAN CO., LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED OCTOBER 31, 1964

1. *Basis of valuing inventories*

Cost of the inventory of ingredients and supplies has been determined on a first-in first-out basis.

Cost of the inventory of products has been determined on a modified last-in first-out basis. Under the company's method, cost is first computed on a first-in first-out basis and this figure is reduced by reference to the increase in inventory prices of a basic quantity of inventory since the end of a base period. (For most products the base period is the four fiscal years 1936 to 1939 inclusive.) Since the amount of such reduction would not be deductible for income tax purposes it is reduced by the current effective rate of income tax (approximately 51 per cent) and the reduction is accordingly 49 per cent of the price increase computed in this manner.

2. *Inter-company profits and losses*

The amount of inter-company profit or loss included in the statement of income and accumulated earnings (and in the opening and closing inventories) is neither determinable nor significant.

3. *Depreciation, depletion, obsolescence and amortization*

(a) Depreciation is calculated on the net book value of the assets at the end of the year at the following rates (with minor exceptions):

Buildings	5%
Machinery	20
Office furniture and fixtures	20
Office machinery	20
Delivery equipment	30

(b) The cost of a fixed asset disposed of is eliminated from the asset account and the difference between the cost and proceeds of disposal is charged to accumulated depreciation except to the extent that such proceeds exceed the original cost of the asset (or the depreciated cost at October 30, 1948 if the asset had been acquired prior to that date). Any excess of the proceeds of disposal over original cost (or the depreciated cost at October 30, 1948 of an asset acquired previously thereto) is credited to profit and loss.

(c) No intangible assets are recorded in the books of the company.

(d) Maintenance, repairs and renewals are charged against operations at the time that expenditures are incurred.

SWIFT CANADIAN CO., LIMITED

FINANCIAL STATEMENTS

FISCAL YEAR ENDED OCTOBER 30, 1965

SWIFT CANADIAN CO., LIMITED — STATEMENT 1

(Incorporated under the laws of Canada)

BALANCE SHEET

October 30, 1965

(with comparative figures as at October 31, 1964)

ASSETS

	1965	1964
CURRENT ASSETS:		
Cash	$ 1,561,552	$ 2,654,948
Accounts and notes receivable—		
Trade (less allowance of $3,219)	10,062,050	9,122,398
Income taxes recoverable	144,763	
Other	172,932	74,460
	10,379,744	9,196,858
Inventories valued at the lower of cost or market value or at approximate market value where cost was not ascertainable (note 1)—		
Products	13,369,958	12,214,153
Ingredients and supplies	1,386,093	1,267,714
	14,756,051	13,481,867
Prepaid insurance, taxes, etc.	528,989	285,285
Total current assets	27,226,336	25,618,958
INVESTMENTS AND OTHER ASSETS:		
Government of Canada bonds (market value $13,320)	14,925	14,925
Mortgage receivable	40,078	45,965
	55,003	60,890

LIABILITIES

	1965	1964
CURRENT LIABILITIES:		
Accounts payable—		
Trade	$ 2,773,806	$ 2,365,611
Other	212,308	197,034
	2,986,114	2,562,645
Payable to parent company, Swift & Company (Illinois)—		
Loan account	1,500,000	2,000,000
Less current account	35,549	1,351
	1,464,451	1,998,649
Accrued liabilities—		
Taxes—general	256,498	297,830
Wages	1,914,379	1,788,422
Other	9,425	12,159
	2,180,302	2,098,411
Provision for taxes on income	901,574	1,416,663
Total current liabilities	7,532,441	8,076,368
DEFERRED TAX CREDIT	248,000	
4.95% NOTE PAYABLE:		
Payable in U.S. funds (U.S. $1,750,000) (note 2)	1,880,709	

FIXED ASSETS, at cost (note 2):				CAPITAL STOCK AND ACCUMULATED EARNINGS:		
Land		761,446	546,532	Capital stock—authorized and issued 120,000 shares of $100 each	12,000,000	12,000,000
Buildings	15,350,520			Accumulated earnings (statement 2)	19,550,903	17,619,295
Less accumulated depreciation	8,762,122					
		6,588,398	6,580,234		31,550,903	29,619,295
Machinery, equipment, etc.	22,970,037					
Less accumulated depreciation	17,764,794					
		5,205,243	4,889,049	On behalf of the Board:		
Potash mine construction in progress		1,375,627		Director		
		13,930,714	12,015,815	Director		
		$41,212,053	$37,695,663		$41,212,053	$37,695,663

(See notes to the financial statements)

ARTHUR YOUNG, CLARKSON, GORDON & CO.
CHARTERED ACCOUNTANTS
15 Wellington Street West
Toronto 1, Canada

AUDITORS' REPORT

To the Shareholders of
Swift Canadian Co., Limited:

We have examined the balance sheet of Swift Canadian Co., Limited as at October 30, 1965 and the statement of income and accumulated earnings for the fiscal year (52 weeks) ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion the accompanying balance sheet and statement of income and accumulated earnings present fairly the financial position of the company as at October 30, 1965 and the results of its operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ARTHUR YOUNG, CLARKSON, GORDON & CO.
Chartered Accountants

Toronto, Canada,
November 29, 1965.

STATEMENT 2

SWIFT CANADIAN CO., LIMITED

STATEMENT OF INCOME AND ACCUMULATED EARNINGS

For the Fiscal Year (52 weeks) ended October 30, 1965

(with comparative figures for the 53 week period ended October 31, 1964)

	1965	1964
Sales, including service revenues	$235,139,121	$215,361,653
Interest received less interest paid	76,918	15,870
Profit on exchange	8,625	15,655
	235,224,664	215,393,178
Less:		
Cost of sales and services including cost of raw materials and processing supplies but excluding the charges set out below (notes 1 and 3)	213,185,623	194,483,879
Selling and administrative expenses	13,896,068	13,540,185
Depreciation (note 4)	1,814,548	1,718,443
Taxes (other than income taxes)	934,811	914,701
Contributions to pension trusts (note 5)	1,256,341	1,003,367
Provision for doubtful accounts, net	42,230	28,248
	231,129,621	211,688,823
Net income before income taxes	4,095,043	3,704,355
Federal income taxes	2,100,000	1,583,000
Provincial income taxes	236,000	209,000
	2,336,000	1,792,000
Net income	1,759,043	1,912,355
Special items:		
Gain on disposal of fixed assets	3,994	1,846
Income taxes and interest recoverable (paid) in respect of re-assessment of prior years' taxes	168,571	(1,905)
	172,565	(59)
Net income and special items (net) transferred to accumulated earnings	1,931,608	1,912,296
Accumulated earnings, beginning of year	17,619,295	15,706,999
Accumulated earnings, end of year	$ 19,550,903	$ 17,619,295

(See notes to financial statements)

SWIFT CANADIAN CO., LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED OCTOBER 30, 1965

1. *Basis of valuing inventories*

(a) Inventory of products:

Cost determined on a modified last-in first-out basis. Under the company's method, cost is first computed on a first-in first-out basis and this figure is reduced by reference to the increase in inventory prices of a basic quantity of inventory since the end of a base period. (For most products the base period is the four fiscal years 1936 to 1939 inclusive.) Since the amount of such reduction would not be deductible for income tax purposes it is reduced by the current effective rate of income tax (approximately 51%) and the reduction is accordingly 49% of the price increase computed in this manner.

Market determined on the basis of net realizable value.

(b) Inventory of ingredients and supplies:

Cost determined on a first-in first-out basis.
Market determined on the basis of replacement cost.

2. *Potash mining venture*

The company has entered into agreements to participate in the bringing into production, and the subsequent operation, of a potash mine in Saskatchewan. Under these agreements it became a cotenant of the premises and shares proportionately in the common operations and other rights and obligations. It is committed to spend approximately $16,000,000 (of which $1,583,000 had been spent to October 30, 1965 and is included in the balance sheet under fixed assets) as its share of the cost of bringing the mine into production. The company has arranged long-term financing aggregating U.S. $15,000,000 to finance its obligations under these agreements. At October 30, 1965 the company owed U.S. $1,750,000 on a note payable on December 30, 1965 or such earlier date as the financing referred to above is completed.

3. *Inter-company profits and losses*

The amount of inter-company profit or loss included in the statement of income and accumulated earnings (and in the opening and closing inventories) is neither determinable nor significant.

4. *Depreciation, depletion, obsolescence and amortization*

(a) Depreciation is calculated on the net book value of the assets at the end of the year at the following rates (with minor exceptions):

Buildings	5%
Machinery	20
Office furniture and fixtures	20
Office machinery	20
Delivery equipment	30

(b) The cost of a fixed asset disposed of is eliminated from the asset account and any excess of cost (or the depreciated cost at October 30, 1948 if the asset had been acquired prior to that date) over proceeds of disposal is charged to

accumulated depreciation. Any excess of the proceeds of disposal over original cost (or the depreciated cost at October 30, 1948 of an asset acquired prior thereto) is credited to profit and loss.

(c) No intangible assets are recorded in the books of the company.

(d) Maintenance, repairs and renewals are charged against operations at the time that expenditures are incurred.

5. *Pension funds*

As at December 31, 1964 the company established noncontributory pension plans which are embodied in irrevocable pension trusts. Prior to this date all eligible employees of the company participated in the parent company's pension trust. Former employees of the company who are retired and receiving pensions or the members of their families eligible to receive pensions under the parent company's pension trust on December 30, 1964, are eligible for pensions uder the Swift Canadian Co., Limited pension plans. As at December 30, 1964 the portion of the parent company's pension trust fund then held in Canada on behalf of Swift Canadian Co., Limited employees (including retired employees or members of their families) was actuarially determined and transferred to the trustee under the Swift Canadian Co., Limited pension trusts.

As at December 31, 1964 actuarial valuations of the plans indicated deficits totalling $2,355,103, which will be amortized over a period of 25 years. The company's pension contributions for the fiscal year ended October 30, 1965 totalled $1,256,341 of which $154,765 was in respect of past service.

6. *Remuneration of directors*

The expenses for the year include salaries of $110,306 (1964—$98,729) paid to employees of the company who are also directors of the company.

COMPARISON OF APPENDIX "B" WITH ARTHUR YOUNG, CLARKSON, GORDON & CO. STATEMENT OF INCOME

		Financial Information Relative to App. "B"			Statement of Income Prepared by AYCG&Co.
		$	%		$
Net Sales					
Total Sales		196,388,592	100.0	Sales incl. Service Revenue	190,577,471
Freight		5,811,121	2.9		
		190,577,471			190,577,471
Livestock and Raw Materials		142,963,765	72.7	Cost of Sales, etc	170,998,396
Wages, Salaries and Employees' Benefits		24,865,756	12.7	Selling and Admin. Expenses	11,966,863
Supplies		8,286,193	4.2	Depreciation	1,761,550
Other Expenses		9,630,720	4.8	Contribution to Pension Trusts	940,603
				Prov. for Doubtful Accts., Net	79,022
		185,746,434			185,746,434
Income and Other Taxes		3,025,741	1.6	Taxes (Other than Income)	798,371
				Federal Income Taxes	2,017,498
				Provincial Income Taxes	209,872
		3,025,741			3,025,741
		188,772,175			
Profit on Operations		1,805,296	.9	*Net Income for Year*	
Profit				Operating Profit	1,805,296
Operating Profit	1,805,296			Interest Income	311,343
Interest Income	311,343			Gain on Disposal of Fixed Assets	40,252
Gain on Disposal of Fixed Assets	40,252			Profit on Exchange	23,054
Profit on Exchange	23,054				
		2,179,945	1.1		2,179,945

The above statement serves to reconcile the dollars used in preparing App. "B", which was included in the Company's brief of Nov. 8, 1966, with the Audited Statement of Income prepared by Arthur Young, Clarkson, Gordon & Co., Chartered Accountants. For business comparative purposes the Company's classification of expenditures is somewhat different to that used by Arthur Young, Clarkson, Gordon & Co., who have classified expenditures in accordance with generally accepted accounting principles.

COMPARISON OF APPENDIX "B" WITH ARTHUR YOUNG, CLARKSON, GORDON & CO. STATEMENT OF INCOME

	Financial Information Relative to App. "B" $	%		Statement of Income Prepared by AYCG&Co. $
Net Sales				
Total Sales	194,499,263	100.0	Sales incl. Service Revenue	188,895,845
Freight	5,603,418*	2.9		
	188,895,845			188,895,845
Livestock and Raw Materials	145,024,280	74.6	Cost of Sales, etc	171,550,546
Wages, Salaries and Employees' Benefits	23,726,870	12.2	Selling and Admin. Expenses	12,197,368
Supplies	7,765,453	4.0	Depreciation	1,770 222
Other Expenses	9,937,666	5.0	Contribution to Pension Trusts	900,911
			Prov. for Doubtful Accts., Net	35,222
	186,454,269			186,454,269
Income and Other Taxes	1,758,906*	.9	Taxes (Other than Income)	763,906
			Federal Income Taxes	895,000
			Provincial Income Taxes	100,000
	1,758,906			1,758,906
	188,213,175			
Profit on Operations	682,670	.3		
Profit			*Net Income for Year*	
Operating Profit	682,670		Operating Profit	682,670
Interest Income	28,502		Interest Income	28,502
Gain on Disposal of Fixed Assets	21,290		Gain on Disposal of Fixed Assets	21,290
Profit on Exchange	27,494		Profit on Exchange	27,494
	759,956	.4		759,956

*Indicates change of .1 from that shown in brief App. "B". The above statement serves to reconcile the dollars used in preparing App. "B", which was included in the Company's brief of Nov. 8, 1966, with the Audited Statement of Income prepared by Arthur Young, Clarkson, Gordon & Co., Chartered Accountants. For business comparative purposes the Company's classification of expenditures is somewhat different to that used by Arthur Young, Clarkson, Gordon & Co., who have classified expenditures in accordance with generally accepted accounting principles.

COMPARISON OF APPENDIX "B" WITH ARTHUR YOUNG, CLARKSON, GORDON & CO. STATEMENT OF INCOME

	Financial Information Relative to App. "B"			Statement of Income Prepared by AYCG&Co.
	$	%		$
Net Sales				
Total Sales	207,332,357	100.0	Sales incl. Service Revenue	201,598,276
Freight	5,734,081	2.8		
	201,598,276			201,598,276
			Cost of Sales, etc	183,122,275
Livestock and Raw Materials	155,673,954	75.0	Selling and Admin. Expense	12,610,639
Wages, Salaries and Employees' Benefits	24,684,030	12.0	Depreciation	1,646,390
Supplies	8,048,127	3.8	Contribution to Pension Trusts	925,480
Other Expenses	9,938,632	4.8	Prov. for Doubtful Accts., Net	39,959
	198,344,743			198,344,743
Income and Other Taxes	2,116,181	1.0	Taxes (Other than Income)	826,788
			Federal Income Taxes	1,155,415
	2,116,181		Provincial Income Taxes	133,978
	200,460,924			2,116,181
Profit on Operations	1,137,352	.5		
Profit			*Net Income for Year*	
Operating Profit	1,137,352		Operating Profit	1,137,352
Interest Income	32,617		Interest Income	32,617
Gain on Disposal of Fixed Assets	25,362		Gain on Disposal of Fixed Assets	25,362
Profit on Exchange	32,774		Profit on Exchange	32,774
	1,228,105	.6		1,228,105

The above statement serves to reconcile the dollars used in preparing App. "B". which was included in the Company's brief of Nov. 8, 1966, with the Audited Statement of Income prepared by Arthur Young, Clarkson, Gordon & Co., Chartered Accountants. For business comparative purposes the Company's classification of expenditures is somewhat different to that used by Arthur Young, Clarkson, Gordon & Co., who have classified expenditures in accordance with generally accepted accounting principles.

APPENDIX II — SWIFT CANADIAN CO., LIMITED—FISCAL YEAR ENDING OCTOBER 26, 1963. — PAGE 4

COMPARISON OF APPENDIX "B" WITH ARTHUR YOUNG, CLARKSON, GORDON & CO. STATEMENT OF INCOME

	Financial Information Relative to App. "B"			Statement of Income Prepared by AYCG&CO.
		$	%	$
NET SALES				
Total Sales		208,007,371	100.0	
Freight		4,879,043	2.4	
		203,128,328		Sales incl. Service Revenue 203,128,328
				203,128,328
Livestock and Raw Materials		157,649,406	75.8	Cost of Sales, etc. 185,520,868
Wages, Salaries and Employees' Benefits		25,091,396	12.0	Selling and Admin. Expenses 12,811,583
Supplies		8,416,150	4.0	Depreciation 1,637,909
Other Expenses		9,750,293*	4.6	Contribution to Pension Trusts 940,095
				Prov. for Doubtful Accts., Net (3,210)
		200,907,245		200,907,245
Income and Other Taxes		1,785,426*	.9	Taxes (Other than Income) 803,632
				Federal Income Taxes 736,000
		1,785,426		Provincial Income Taxes 83,000
				Additional Income Tax & Interest Prior Years 162,794
		202,692,671		
Profit on Operations		435,657	.2	1,785,426
Profit				*Net Income for Year*
Operating Profit	435,657			Operating Profit 435,657
Interest Income	28,747			Interest Income 28,747
Gain on Disposal of Fixed Assets	196,797			Gain on Disposal of Fixed Assets 196,797
Profit on Exchange	16,689			Profit on Exchange 16,689
		677,890	.3	677,890

*Indicates change of .1 from that shown in brief App. "B" The above statement serves to reconcile the dollars used in preparing App. "B", which was included in the Company's brief of Nov. 8, 1966, with the Audited Statement of Income prepared by Arthur Young, Clarkson, Gordon & Co., Chartered Accountants. For business comparative purposes the Company's classification of expenditures is somewhat different to that used by Arthur Young, Clarkson, Gordon & Co., who have classified expenditures in accordance with generally accepted accounting principles.

COMPARISON OF APPENDIX "B" WITH ARTHUR YOUNG, CLARKSON, GORDON & CO. STATEMENT OF INCOME

	Financial Information Relative to App. "B"			Statement of Income Prepared by AYCG&CO.
	$	%		$
NET SALES				
Total Sales	220,480,473	100.0	Sales incl. Service Revenue	215,361,653
Freight	5,118,820	2.3		
	215,361,653			215,361,653
Livestock and Raw Materials	164,777,121	74.7	Cost of Sales, etc.	194,483,879
Wages, Salaries and Employees' Benefits	26,952,557	12.3	Selling and Admin. Expenses	13,540,185
Supplies	8,947,374	4.0	Depreciation	1,718,443
Other Expenses	10,097,070	4.6	Contribution to Pension Trusts	1,003,367
			Prov. for Doubtful Accts., Net	28,248
	210,774,122			210,774,122
Income and Other Taxes	2,708,606	1.2		
			Taxes (Other than Income)	914,701
	2,708,606		Federal Income Taxes	1,583,000
			Provincial Income Taxes	209,000
	213,482,728		Additional Taxes for Prior Years	1,905
Profit on Operations	1,878,925	.9		2,708,606
Profit			*Net Income for Year*	
Operating Profit	1,878,925		Operating Profit	1,878,925
Interest Income	15,870		Interest Income	15,870
Gain on Disposal of Fixed Assets	1,846		Gain on Disposal of Fixed Assets	1,846
Profit on Exchange	15,655		Profit on Exchange	15,655
	1,912,296	.9		1,912,296

The above statement serves to reconcile the dollars used in preparing App. "B", which was included in the Company's brief of Nov. 8, 1966, with the Audited Statement of Income prepared by Arthur Young, Clarkson, Gordon & Co., Chartered Accountants. For business comparative purposes the Company's classification of expenditures is somewhat different to that used by Arthur Young, Clarkson, Gordon & Co., who have classified expenditures in accordance with generally accepted accounting principles.

APPENDIX II — SWIFT CANADIAN CO., LIMITED—FISCAL YEAR ENDING OCTOBER 30, 1965. — PAGE 6

COMPARISON OF APPENDIX "B" WITH ARTHUR YOUNG, CLARKSON, GORDON & CO. STATEMENT OF INCOME

		Financial Information Relative to App. "B"			Statement of Income prepared by AYCG&CO.
		$	%		$
NET SALES				Sales incl. Service Revenue	235,139,121
Total Sales		240,763,591	100.0		
Freight		5,624,470	2.3		235,139,121
		235,139,121		Cost of Sales, etc.	213,185,623
Livestock and Raw Materials		181,458,187	75.3	Selling and Admin. Expenses	13,896,068
Wages, Salaries and Employees' Benefits		28,864,930	11.9	Depreciation	1,814,548
Supplies		9,171,098	3.8	Contribution to Pension Trust	1,256,341
Other Expenses		10,700,595	4.6	Provision for Doubtful Accts., Net	42,230
		230,194,810			230,194,810
Income and Other Taxes		3,102,240	1.3	Taxes (Other than Income)	934,811
		3,102,240		Federal Income Taxes	2,100,000
		233,297,050		Provincial Income Taxes	236,000
				Income Tax and Interest Received re. Prior Years	(168,571)
					3,102,240
Profit on Operations		1,842,071	.8		
Profit				*Net Income for Year*	
Operating Profit	1,842,071			Operating Profit	1,842,071
Interest Income	76,918			Interest Income	76,918
Gain on Disposal of Fixed Assets	3,994			Gain on Disposal of Fixed Assets	3,994
Profit on Exchange	8,625			Profit on Exchange	8,625
		1,931,608	.8		1,931,608

The above statement serves to reconcile the dollars used in preparing App. "B", which was included in the Company's brief of Nov. 8, 1966, with the Audited Statement of Income prepared by Arthur Young, Clarkson, Gordon & Co., Chartered Accountants. For business comparative purposes the Company's classification of expen litures is somewhat different to that used by Arthur Young, Clarkson, Gordon & Co., who have classified expenditures in accordance with generally accepted accounting principles.

APPENDIX III

ADVERTISING AND PROMOTION—FOOD PRODUCTS ONLY ALL UNITS

	1962	1963	1964	1965
Advertising	1,340,786	1,141,931	1,060,320	1,304,407
Sales Promotion	805,850	911,357	1,115,568	991,754
	2,146,636	2,053,288	2,175,889	2,296,161
	$	$	$	$
Advertising Cost per cwt	.25	.22	.19	.22
Promotion Cost per cwt	.15	.17	.19	.16
Advertising and Promotion Cost per cwt	.40	.39	.38	.38
Advertising Cost per $ Sales	.007	.006	.005	.006
Promotion Cost per $ Sales	.004	.005	.006	.005
Advertising and Promotion Cost per $ Sales	.011	.011	.011	.011

SWIFT

APPENDIX IV

PROFIT DIVIDEND PLAN

for Advertising and Merchandising Swift Products

Effective, Jan. 1, 1965 thru December 31, 1965

For Zones 1 and 2 (Maritimes, Quebec, Ontario except Ft. William)

To help increase customer sales of Swift's products on a store-wide basis, promotional monies are offered to our customers for this purpose on a proportionate basis.

Upon performance of the following conditions, Swift will pay promotional allowances as specified on products listed, which are delivered to participating stores during the week of the promotion and 2 weeks prior to the promotion.

To qualify for the allowances, customer is required to advertise and promote a minimum of 9 products from 9 different classifications with a minimum of 4 products from four different classifications in group No. 1 thru 12 and a minimum of 4 products from four different classifications in group No. 13 thru 28. The ninth product may be selected from either group;

Classification	*Product*	*Advertising Allowance (per lb.)*
1	Allsweet Golden Dew Gem Margarine	30c
2	Jewel Shortening Swift'ning Shortening	30c
3	Jewel Oil	30c
4	Pard Pet Foods (all varieties)	30c
5	Purr Cat Food	30c
6	Swift Meats For Babies and Meat Dinners	30c
7	Prem	30c
8	Swift's Premium Beef & Irish Stew	30c
9	Swift's Premium 1½ lb. canned hams	30c
10	All other Swift's Premium canned meats (shelf lined)	30c
11	Swift's Premium Frozen Pies and Candlelight Dinners	30c
12	Swift's Premium Savortite Products	½c per lb.
13	Swift's Premium Wieners or Franks	½c
14	Swift's Premium Sliced T.R.M.'s	½c
15	Swift's Premium Sausage Brookfield Sausage Swift's Premium Chubs	½c
16	Swift's Premium Brown 'N Serve Sausage	½c
17	Swift's Premium Dry Sausage	½c
18	Dairy Products (All Swift's Brookfield Consumer Packaged dairy products), Cheese, eggs and butter	½c
19	All Swift's Premium Beef Specialties (Sliced Smoked Beef, Corned Beef, Beef Tongue)	½c
20	Swift's Premium Sliced Bacon	½c ½c
21	Swift's Premium Smoked Ham	½c
22	All other Swift's Premium Smoked meat products picnics, cottage rolls etc.)	½c
23	Swift's Premium Cry-O-Vac S.P. Cottage Rolls	½c
24	All Swift's Premium Poultry including Tender-Grown Swift's Premium Chickens, Butterball Swift's Premium Turkeys, Swift's Premium Fowl Capons	½c
25	Swift's Premium branded beef included ProTen and (T)endered	⅛c
26	Swift's Premium Veal	⅛c
27	Swift's Premium Lamb	⅛c
28	Swift's Fresh Pork	⅛c

The customer must advertise and promote all nine (or more) Swift items during week of the promotion (9 different items from nine different product classifications must be advertised).

All products on which payment shall be made must be prominently displayed in the stores during the week of the promotion.

Recognizing the importance of the over-all in-store activities connected with the store-wide promotion, Swift under this plan will pay an additional $\frac{1}{8}$c per pound in-store merchandising allowance on all deliveries of Swift's fresh pork; lamb; and veal; smoked meats; T.R.M.; poultry, cheese, butter, and eggs during this three week delivery period. An amount at least equal to this allowance must be spent for general in-store merchandising of the event and for specifically promoting Swift's products.

Customer shall send his invoice along with proof of performance covering services, advertising and/or displays to our company at the conclusion of the promotion accompanied by tear sheets of the ad, copies of hand bills, radio and/or television scripts, order guide pages or inserts, whichever applies.

Customer should not make deductions from payment of company invoices to cover payment under this plan.

This plan is available to all of our customers on the basis of 2 promotions per store during the period January 1, 1965 thru December 31, 1965.

The allowances under this plan are in addition to any advertising agreement between Swift and the customer in effect on individual products.

This plan is subject to change by Swift at any time without notice.

APPENDIX V

TOTAL CORPORATE SERVICE CHARGES PAID BY SWIFT CANADIAN CO., LIMITED TO SWIFT AND COMPANY

Fiscal Year	U.S. Dollars	Canadian Dollars	% of Sales $ Swift Canadian Co., Limited
1960	$754,859	$732,873	.0038
1961	723,673	724,801	.0038
1962	718,458	765,283	.0037
1963	715,623	772,233	.0037
1964	738,797	794,405	.0036
1965	747,325	803,575	.0034

PORTION OF TOTAL CORPORATE SERVICE CHARGE WHICH RELATE TO FOOD PRODUCTS

Fiscal Year	U.S. Dollars	Canadian Dollars	% of Food Sales $ Swift Canadian Co., Limited
1960	$585,658	$563,989	.0030
1961	548,282	549,104	.0030
1962	543,826	579,175	.0030
1963	540,710	583,967	.0030
1964	563,884	606,175	.0029
1965	572,413	615,344	.0028

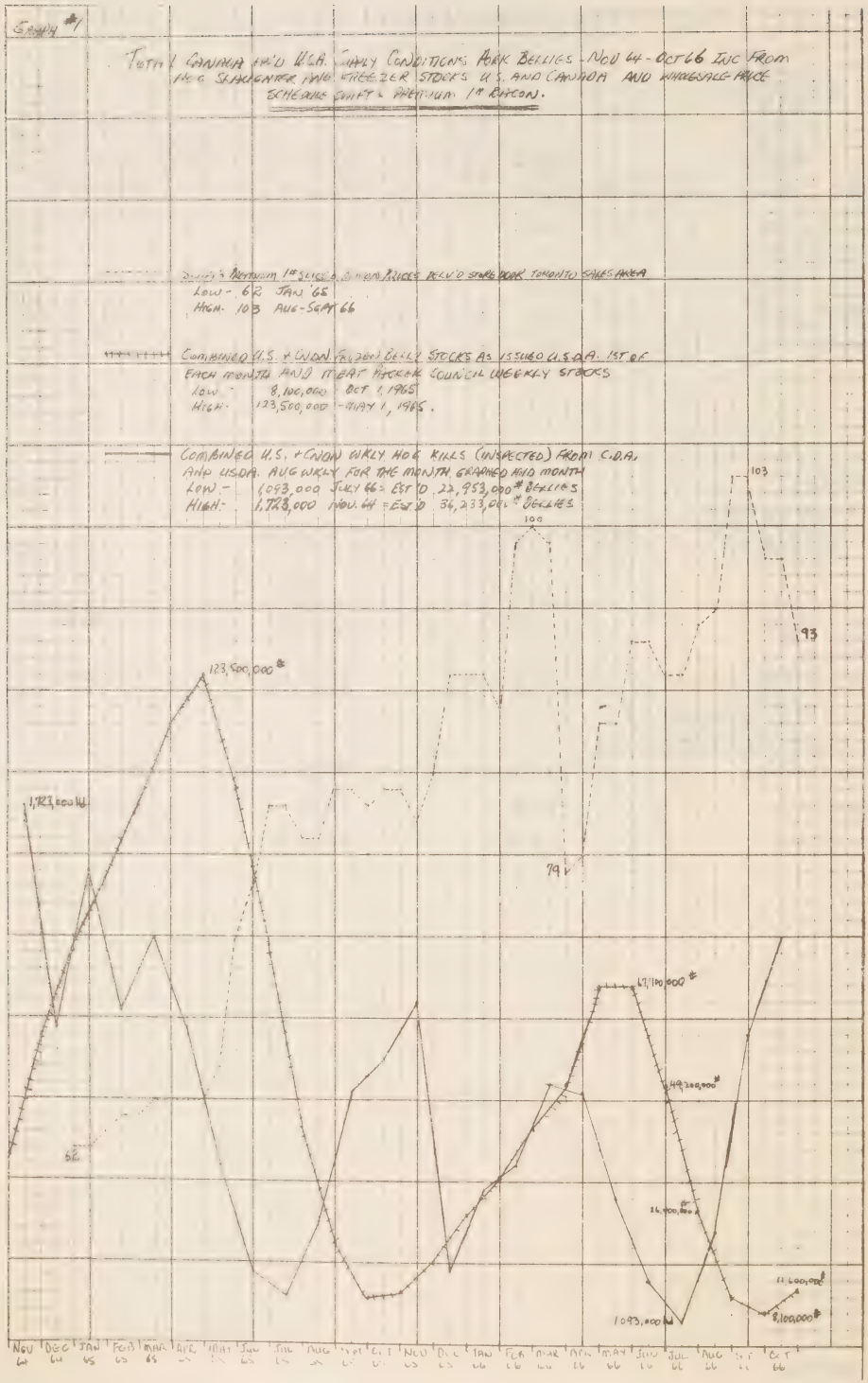
APPENDIX VI

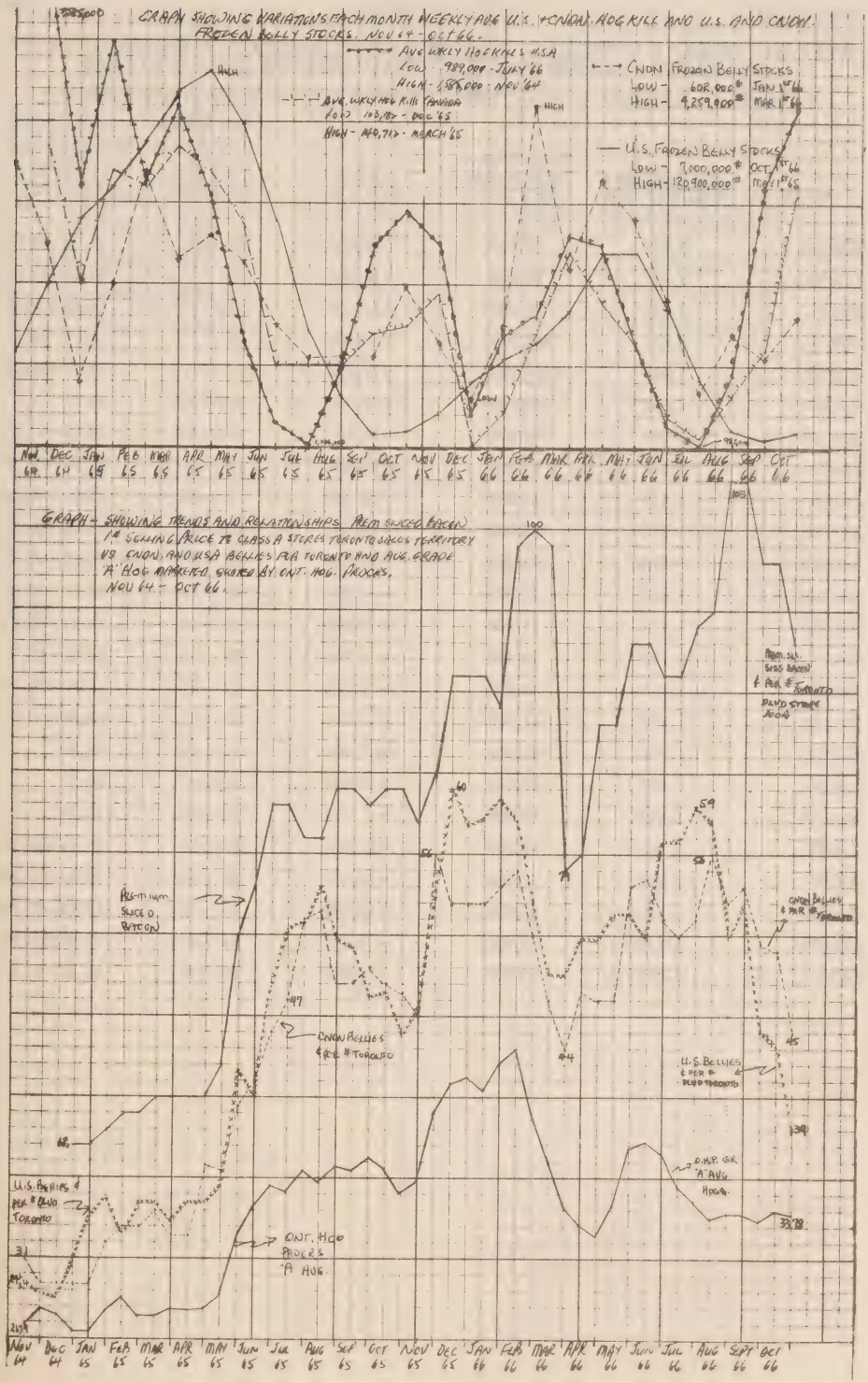
SWIFT—TORONTO PLANT

W/E	Purchase: Swift Avg. Price Paid Gr.A hogs Deld Plant	Sale Price—Chains—Delived: Pork Loins	N.Y. Shdlr	Belly Mkt "Called"	Swift's Premium Sliced Bacon 1 Lb.	Ham Mkt "Called"	F.C.Pt Sknd Hams	Hckls Picnic Mkt "Called"	Prem. Smkd Hckls Picnic	Butt Mkt "Called"	S.P. Cryo Cott Roll
	$ cwt.	¢	¢	¢	¢	¢	¢	¢	¢	¢	¢
2/6/65	28.92	49	33	33	64	42	50½	29½	37	37	45½
2/12/66	43.99	66	54½	55	99	62½	75	48	57½	58	71½
10/29/66	33.98	65	46½	45	93	47	63	39	53	46	67

SWIFT—TORONTO—CHOICE STEERS

	W/E 2/6/65	W/E 2/12/66	W/E 10/29/66
Estimated			
Raw Cost of Beef in Cooler	$39.56 cwt.	$47.42 cwt.	$46.44 cwt.
Value of By-Products deducted			
Sale Prices Delivered Chains Per Cwt.			
Choice Carcasses	$41.00	$48.75	$47.50
Choice Hinds	$49.00	$57.00	$56.00
Choice Fronts	$35.00	$40.50	$39.50


GRAPH #1
TOTAL CANADA AND U.S.A. SUPPLY CONDITIONS PORK BELLIES - NOV 64 - OCT 66 INC FROM MFG. SLAUGHTER AND FREEZER STOCKS U.S. AND CANADA AND WHOLESALE PRICE SCHEDULE CUTOUT & PREMIUM 1ST RATSON.
DAILY & PREMIUM 1ST SELECT & OTHER PRICES DELV'D STOCKYARD TORONTO SALES AREA
LOW - 62 JAN '65
HIGH - 103 AUG-SEPT 66
COMBINED U.S. + CANADIAN BELLY STOCKS AS ISSUED U.S.D.A. 1ST OF EACH MONTH AND MEAT PACKERS COUNCIL WEEKLY STOCKS
LOW - 8,100,000 OCT 1, 1965
HIGH - 123,500,000 - MAY 1, 1965.
COMBINED U.S. + CANADIAN WKLY HOG KILLS (INSPECTED) FROM C.D.A. AND U.S.D.A. AUG WKLY FOR THE MONTH GRAPHED AND MONTH
LOW - 1093,000 JULY 66 = EST'D 22,953,000 # BELLIES
HIGH - 1,723,000 NOV. 64 = EST'D 36,233,000 # BELLIES
103
100
93
123,500,000 #
1,723,000 W
79¢
62
69,100,000 #
49,200,000 #
24,900,000 #
11,600,000 #
8,100,000 #
1093,000 W
NOV 64
DEC 64
JAN 65
FEB 65
MAR 65
APR
MAY
JUN 65
JUL 65
AUG
SEPT
OCT
NOV
DEC
JAN 66
FEB 66
MAR 66
APR 66
MAY 66
JUN 66
JUL 66
AUG 66
SEPT
OCT 66


GRAPH SHOWING VARIATIONS EACH MONTH WEEKLY AVG U.S. & CNDN. HOG KILL AND U.S. AND CNDN. FROZEN BELLY STOCKS. NOV 64 - OCT 66.
AVG WKLY HOG KILL U.S.A
LOW - 989,000 - JULY '66
HIGH - 1,588,000 - NOV '64
AVG. WKLY HOG KILL CANADA
LOW 103,187 - DEC '65
HIGH - 149,712 - MARCH '65
CNDN FROZEN BELLY STOCKS
LOW - 608,000# JAN 1ST '66
HIGH - 9,259,000# MAR. 1ST '66
U.S. FROZEN BELLY STOCKS
LOW - 7,000,000# OCT 1ST '66
HIGH - 129,900,000# MAR 1ST '65
NOV 64 DEC 64 JAN 65 FEB 65 MAR 65 APR 65 MAY 65 JUN 65 JUL 65 AUG 65 SEP 65 OCT 65 NOV 65 DEC 65 JAN 66 FEB 66 MAR 66 APR 66 MAY 66 JUN 66 JUL 66 AUG 66 SEP 66 OCT 66
GRAPH - SHOWING TRENDS AND RELATIONSHIPS FROM SLICED BACON
1st SELLING PRICE TO CLASS A STORES TORONTO SALES TERRITORY
VS CNDN. AND USA BELLIES FOR TORONTO AND HOG GRADE 'A' HOG MARKETED, GRADED BY ONT. HOG PRICES.
NOV 64 - OCT 66.
PREMIUM SLICED BACON
CNDN BELLIES & PER # TORONTO
U.S. BELLIES & PER # DLVD TORONTO
ONT. HOG PRICES 'A' AVG.
D.M.P. GR 'A' AVG HOGS
NOV 64 DEC 64 JAN 65 FEB 65 MAR 65 APR 65 MAY 65 JUN 65 JUL 65 AUG 65 SEP 65 OCT 65 NOV 65 DEC 65 JAN 66 FEB 66 MAR 66 APR 66 MAY 66 JUN 66 JUL 66 AUG 66 SEPT 66 OCT 66

AVERAGE WEEKLY COMBINED CANADIAN & U.S. HOG KILLS, CANADIAN & U.S. COMBINED FREEZER STOCKS, CANADIAN & U.S. BELLY VALUES
TORONTO BASIS

Mo/Yr	Total Av. Wkly Kill, 000's HD	Total Frozen Belly Stocks 000's Lbs.	Change 000's Lbs.	Cndn Bellies Per Lb. "Called" 1st & Last Wk	U.S. Bellies Per Lb. "Called" 1st & Last Wk
Nov/64.....	1,723	57,100	+19,600	31—29½	29.43—28.89
Dec/64.....	1,451	75,400	+18,300	29½	28.49—30.92
Jan/65.....	1,640	86,900	+11,500	29½—32	33.48—34.83
Feb/65.....	1,474	101,300	+14,400	33	32.67—34.56
Mar/65.....	1,567	116,100	+14,800	34—32½	34.43—33.21
Apr/65.....	1,450	123,500	+ 7,400	32½—36¾	34.56
May/65.....	1,269	105,400	−18,100	36½—40½	35.64—42.66
Jun/65.....	1,151	75,100	−30,300	42 —45	41.04—47.79
Jul/65.....	1,119	42,200	−32,900	47 —52	51.30—51.84
Aug/65.....	1,215	22,900	−19,300	52½—48	54.00—50.76
Sept/65.....	1,372	10,100	−12,800	48 —49	50.22—47.25
Oct/65.....	1,407	11,700	+ 1,600	48 —47½	47.52—44.82
Nov/65.....	1,480	17,200	+ 5,500	46 —56	46.44—53.73
Dec/65.....	1,145	25,900	+ 8,700	53 —53	59.94—57.78
Jan/66.....	1,247	33,000	+ 7,100	53 —54	58.32—59.40
Feb/66.....	1,280	41,800	+ 8,800	55 —51	58.05—52.92
Mar/66.....	1,383	49,200	+ 7,400	47 —44	48.60
Apr/66.....	1,372	67,600	+18,400	47½—47	50.76
May/66.....	1,243	67,700	+ 100	47 —54	52.38
Jun/66.....	1,136	49,200	—18,500	54½—52	50.76—56.70
Jul/66.....	1,093	26,400	−22,800	51 —52	56.70—58.86
Aug/66.....	1,205	12,400	−14,000	56 —53	57.78—50.76
Sep/66.....	1,440	8,100	− 4,300	54 —50½	52.92—45.09
Oct/66.....	1,560	11,600	+ 3,500	50 —45	44.28—38.88

APPENDIX VIII

SWIFT — TORONTO PLANT

Bellies Purchased or Transferred from Sources Outside of Ontario

Month	Amount
June, 1966	40,000 lbs.
July, 1966	11,000 lbs.
Aug., 1966	156,000 lbs.
Sept., 1966	210,000 lbs.
Oct., 1966	192,500 lbs.

APPENDIX IX

Estimated Profit Per Pound Before Tax on Sliced Bacon

Month	Estimated Profit or Loss ¢ per pound
Nov., 1964	1.61
Dec., 1964	2.08
Jan., 1965	3.22
Feb., 1965	1.54
Mar., 1965	— .34
April, 1965	3.00
May, 1965	— .31
June, 1965	—1.42
July, 1965	—1.61
Aug., 1965	—3.75
Sept., 1965	— .45
Oct., 1965	3.00
Nov., 1965	2.62
Dec., 1965	—2.06
Jan., 1966	— .27
Feb., 1966	—1.11
Mar., 1966	2.19
April, 1966	—1.66
May, 1966	—1.69
June, 1966	—7.75
July, 1966	2.68
Aug., 1966	4.85
Sept., 1966	3.95
Oct., 1966	3.26

APPENDIX X

OTHER EXPENSES—APPENDIX "B"—Swift Brief Nov. 8, 1966.

	1960	1961	1962	1963	1964	1965
Maintenance and Repairs	1,062,831	1,085,958	1,092,467	977,572	999,189	1,209,869
Depreciations	1,761,550	1,770,222	1,646,390	1,637,909	1,718,443	1,814,548
Rents paid outsiders	301,648	330,379	372,319	356,654	339,363	490,746
Parent Co. Service Fees	732,873	724,801	765,283	772,233	794,405	803,575
Advertising and Promotion	1,976,545	2,294,372	2,364,359	2,267,457	2,390,037	2,469,211
Insurance	94,554	82,154	79,337	83,110	82,752	84,515
Selling and Administrative Exp. other than salaries	2,553,036	2,455,109	2,547,916	2,502,820	2,536,732	2,346,614
Provision for doubtful accounts, net	79,022	35,222	39,959	(3,210)	28,248	42,230
Other Misc. Expenses*	1,068,661	1,159,449	1,030,602	1,155,748	1,207,901	1,439,287
TOTAL	9,630,720	9,937,666	9,938,632	9,750,293	10,097,070	10,700,595
	4.8	5.0	4.8	4.6	4.6	4.6

**Other Misc. Expenses:* Light, Heat and Water for dressing rooms and washrooms; Supplies for dressing rooms—towels, soap, toilet paper; Expenses of Receiving Office and expense for receiving product and supplies; Safety (supplies, signs, films, slides, etc.); Cleaning dressing rooms, passageways within plants, superintendent's offices, Time Offices, Medical Offices, Employment Offices; Postage, stationery, telephone and teletype; Travelling expenses of operating employees; Employment expenses; Suggestion Awards; First Aid supplies and Medical Office expenses; Laundry of employees' work clothes; Switching railway cars within plant grounds; Cleaning sanitary and storm sewers; Maintaining sanitary and serviceable conditions of outdoor premises; Garbage disposal; Government Inspectors' overtime; Gardening and landscaping; Storage charges for product and supplies in outside storage warehouses; Cleaning of livestock pens; Livestock buying commissions;

SWIFT—TORONTO—Cattle and Beef Information

W.E.	Total Cattle Killed	Choice Steers Killed	% Choice Cattle	Average Sale Price Per Cwt Choice	Estimated Total $ Recd From Sale Choice Beef
			%		
11/7/64	1180	638	55	40.02	$145,500
14	1156	636	55	40.47	147,000
21	1254	685	55	40.96	193,800
28	1303	537	41	40.94	125,200
12/5	1225	548	45	40.95	127,800
12	1162	503	43	40.95	117,200
19	1061	564	53	40.93	131,200
26	783	259	33	40.98	60,700
31	948	595	63	40.94	138,200
1/9/65	937	610	65	40.97	142,400
16	1196	728	61	40.97	170,000
23	1251	733	58	41.00	171,800
30	1237	839	68	41.02	196,000
2/6	1056	575	54	41.02	134,000
13	1266	822	65	41.48	194,200
20	1206	674	56	41.53	159,500
27	1125	616	54	41.57	146,200
3/6	893	541	60	41.58	128,200
13	1159	755	65	41.57	177,000
20	1041	601	57	42.01	144,200
27	1155	730	63	42.00	174,800
4/3	1203	758	63	42.01	180,900
10	919	484	52	42.01	116,000
17	1155	759	66	42.03	182,000
24	940	580	62	42.01	138,800
5/1	1070	571	53	41.63	135,300
8	1027	584	57	41.59	138,200
15	917	506	55	42.57	116,500
22	886	527	60	43.55	130,800
29	824	468	57	44.56	118,500
6/5	1238	616	50	44.62	156,800
12	1091	447	36	45.56	116,100
19	1336	668	50	45.61	173,200
26	942	477	50	45.60	124,000
7/3	813	434	53	45.56	112,900
10	1046	483	46	45.60	125,800
17	903	376	41	45.53	97,300
24	1157	500	43	45.58	129,900
31	1009	507	51	45.52	131,500
8/7	885	507	57	45.53	131,600
14	1026	544	53	45.51	130,700
21	1018	417	41	45.03	106,800
28	974	561	57	44.51	142,100
9/4	968	393	40	44.53	100,000
11	919	613	66	44.51	156,100
18	1192	698	59	44.50	177,000
25	1153	659	57	44.05	165,000
10/2	923	349	38	44.03	87,500
9	963	403	42	43.60	87,600
16	966	559	57	43.57	100,200
23	1314	777	58	43.57	192,900
30	1165	522	44	43.65	129,800
11/6	1297	423	33	44.07	100,700
13	1416	607	42	44.55	150,300
20	970	371	38	45.56	96,500
27	1276	362	28	46.53	96,000
12/4	1259	255	20	46.11	67,000
11	1193	506	42	46.07	132,800
18	1102	290	27	46.09	76,100
25	884	251	28	46.07	66,100

SWIFT—TORONTO—Catle and Beef Information (*Concluded*)

W.E.	Total Cattle Killed	Choice Steers Killed	% Choice Cattle	Average Sale Price Per Cwt Choice	Estimated Total $ Recd From Sale Choice Beef
			%		
1/1/66	774	356	46	47.04	95,300
8	1101	472	43	47.04	126,600
15	1267	580	46	47.05	155,500
22	1312	575	44	48.05	157,500
29	1352	590	44	49.75	167,300
2/5	1208	463	39	50.03	132,200
12	1184	496	42	48.71	137,200
19	1224	518	43	48.49	143,100
26	1055	451	43	48.50	125,000
3/5	1206	569	48	48.40	157,000
12	1166	486	42	48.43	134,200
19	1142	438	38	47.97	120,000
26	1039	451	43	47.01	121,000
4/2	1053	411	39	46.59	108,900
9	1138	376	34	46.55	99,800
16	965	412	43	47.02	110,400
23	1060	338	37	45.31	87,300
30	1016	496	48	45.52	128,700
5/7	1227	604	49	45.51	156,900
14	1185	553	47	45.58	144,100
21	1049	514	50	45.56	133,800
28	913	481	53	45.54	126,100
6/4	1209	666	55	45.50	172,900
11	1088	459	42	45.46	118,900
18	1164	506	44	44.64	128,800
25	1031	542	52	44.56	137,500
7/2	1095	543	50	43.62	135,300
9	824	399	48	43.27	98,400
16	897	445	50	43.77	111,100
23	1171	536	46	44.62	136,600
30	1473	695	47	45.63	181,100
8/6	1380	593	43	45.76	158,800
13	1962	933	48	45.49	241,900
20	1489	708	47	44.59	179,900
27	1735	799	46	45.16	206,100
9/3/66	2000	851	44	46.49	225,600
10	1510	723	48	46.07	190,000
17	1659	747	46	47.09	200,500
24	1606	773	48	48.06	212,600
10/1	1698	823	48	48.16	226,100
8	1313	475	36	47.93	129,800
15	1073	597	56	47.54	161,900
22	1212	645	53	47.52	174,500
29	1221	467	38	47.48	125,900

Upon resuming at 3 p.m.

Co-Chairman Senator CROLL: We have Mr. A. D. Holmes, who is Director of the Prices Division of the Dominion Bureau of Statistics, and Mr. G. A. Lane, the Chief of the Retail Prices Section at D.B.S. Mr. Lane will speak first, and you have his supplementary brief.

Mr. Grove A. Lane, Chief, retail prices section, Dominion Bureau of Statistics: Thank you, Senator Croll, I have prepared a very brief note, which I think you have, entitled "Dominion Bureau of Statistics, Prices Division, Retail Prices Section, Supplementary Remarks." On the afternoon of October 13—and for your handy reference, No. 7 of your proceedings at page 387—the Co-Chairman, Mr. Basford, who was then occupying the chair here, requested that we attempt to prepare a list of examples illustrating the influence of packaging on prices. This has been a more difficult task than I initially envisaged. Our records currently are not prepared to meet this type of data requirement. Furthermore, as mentioned in our former discussion, we have not had the staff nor time to maintain an adequate commodity intelligence system. In fact, until June of this year we had only one officer (and one vacant position) devoted to commodity intelligence work and to specification maintenance for the approximately 300 items included in the Consumer Price Index. Food and related sundry products amount to about one-third of this total, or approximately 100 items.

Before I proceed into this list of examples which are attached on the two pages adjoining this statement, I should like, with your permission, Mr. Chairman, to clarify my previous remarks concerning a question of detail involving infants' food. This detail came to light, as a matter of fact, while we were reviewing our records for this listing. You will recall my suggestion that we might "concoct the argument"—again this is on the same page, page 387—that a conversion from tins to glass jars represented quality improvement. In 1962, when glass jars first began to displace tins in the infants' food in some cities, our commodity officer of the day ruled that there was no quality change. In that event, the price difference was accepted. Thus, the price increase was allowed and the Consumer Price Index incorporated the initial and subsequent price changes observed throughout Canada over a gradual four-year period.

Let me be very clear, however; this in no way alters the principle established at our previous appearance before you. That is, if there is evidence to support the judgment that a change in package, or container, as the case might be, saves time, labour or otherwise affords convenience, we adjust the price accordingly, and in that way eliminate its influence in the index.

May we please turn to the table listing the 25 examples of package and/or content changes that we can readily identify from our records. Allow me to reiterate a caution: the year noted—that is the year indicated in the second column of the table—may not, and certainly should not, be interpreted as a hard and fast indicator of when these changes first occurred. Rather, this date refers to when we recognized the new package and accepted the change in terms of the Consumer Price Index.

One other remark might be noted at the outset. Changes in products and the form of packaging are continuously being experimented with throughout the country. Some firms use one city while other firms use another. Once a new form of packaging or product is adopted, its innovation proceeds normally city by city or region by region.

Let us take tea to illustrate this particular point. Tea is the second item in the table. Tea has been gradually changing, right up until the current period. First, the major shift was from bulk tea, usually in 1 lb. packages, to tea put up in gauze bags. There was quite a substantial increase in price because the gauze

bags were originally pre-measured, usually for two cups. More recently the gauze bags have been switched over to paper bags, and the paper bags are more generally sold throughout Canada in all areas except in the Atlantic provinces, where they have maintained the sale of tea in gauze bags.

Initially paper bags were more expensive than gauze bags, but as the paper bags became the predominant seller and gauze bags were relegated to a lower volume, they became relatively more expensive than tea put up in paper bags. Currently paper bags are beginning to take hold in the maritime provinces, and what we are finding is, that in fact, the gauze bags sell for something in the order of 10¢ per pound more than tea available in paper bags. This indicates the kind of movements that take place and why this business of trying to follow package changes through time is a rather difficult task.

The third example in the table is coffee. It is available at the current time both in bulk and in tins. What I have tried to indicate here is that when you buy it in a tin it will cost you approximately 10¢ a pound more than in a paper bag. In (b) here, in 1966 we have accepted a jar of instant coffee, but it is a larger jar, which seems to be the predominant seller, and for the larger jar it is, on a per unit basis, relatively less expensive. I was unable to give a firm figure as to the extent of this decrease, so I have just noted it "decrease" on the table.

Item 4 we did touch on in our previous discussion, but I have restated it here. During the period 1964 through 1966, glass bottled soft drinks began to be replaced by soft drinks in tin cans. We have not yet started to price the tins in our pricing program, but it has almost reached the point where the volume sold in tins is sufficiently important that we might very well introduce it within the next few months. It is for this reason that I have indicated that I do not know what the increase is. Originally, when the tins came out they were more expensive than soft drinks in glass bottles.

In the second part here, non-returnable bottles have become more important. Again usually the price is a little bit higher for the non-returnable bottles.

The fifth item, fluid milk, we discussed previously. Here the increase that resulted when dairies converted from glass bottles to plastic jugs was 5¢ on 3 quarts. As far as we can detect, in about 1965, dairies also converted from the waxed carton to the plastic coated carton, but as far as our records indicate there was no effect on price. I understand that the plastic coated cartons are a little more durable and will stand a little more handling than the former waxed cartons.

The sixth item is butter. Some time around 1961 we noted that butter was wrapped in foil rather than in parchment paper, but to our knowledge there was no price effect.

The seventh item is cheese. Prior to 1962—and I cannot indicate a firm date—the bulk was replaced by pre-packaged and a sealed cello-pack, usually in a 12 oz. package, although more recently in either 12 or 8 oz. packages. There was some increase in price, but I am unable to give you a firm figure.

No. 8 is peanut butter. About 1963, regular jars were replaced by refrigerator jars, and this amounted to roughly 5¢ per jar increase in price.

No. 9 is bacon. I might indicate that was one of the examples that was explicitly requested to cover. In 1963 the vacuum pack bacon came on to the market, not to replace but to be sold alongside the cellophane wrap, and it cost 10¢ per lb. more. In 1965 the sellers of bacon began to shift predominantly from the ½ lb. to the 1 lb. size, and as near as we could detect, there was a very slight decrease in price with the larger sized package.

During the current year, 1966, we note that some bacon has been offered for sale using maple sugar curing rather than the ordinary sugar curing process, but it seems to be selling at the same price. That is more along the lines of a product change rather than a package change.

A related item is No. 10, ham. In 1962 we shifted from a "to be cooked" style ham to a "ready to eat". There was quite a noticeable increase in price. I think this is to be expected, of course, because the "ready to eat"—and I put it in quotation marks because I think it says right on the package that you should not eat it in its raw form, or in the form that you buy it, but rather it should at least be warmed up—does represent an additional processing, an additional step in the preparation of ham.

In 1964 we began to find quarter hams pre-wrapped. Prior to that, if you bought your ham in a butcher's shop your butcher would cut you off any part of the ham that you might want, but in 1964 we found on the self-service counters in the supermarkets pre-wrapped quarter hams available for sale. There did not seem to be any particular price effect associated with this smaller package. We have noted in the past two years that "regular" hams—and I put "regular" in quotation marks—are frequently "special". It would appear that these hams are sometimes used, even perhaps as loss-leaders, but certainly to beckon the consumer into the supermarket, particularly for a weekend splurge.

Item No. 11 is cottage roll. In 1955 the cottage roll was replaced by the "picnic" style. It is really a ham. We were unable to indicate any effect on price. Then, in 1961, we noted that the "sweet pickled" cottage roll came into vogue, and it shows a definite increase in price.

The only beef item that stood out in changes within the last four or five years or so has been the rib roast. Now, it may very well have been sold prior to 1961 on a rolled basis but in 1961 we recognized this new method of merchandizing this product from a "standing" rib. A "standing rib" is where you have the five or seven ribs in the roast, and this is a bone out, the bone has been removed and the rib is rolled up for a pot roast. There was quite a definite increase in price. Again I might mention in this connection, if you were buying beef from a butcher's shop you could always have your butcher debone the roast and then take it home tied up. What I am really referring to here is that in the self-service supermarket store you could actually buy a prepackaged rolled rib roast all nicely tied up and wrapped in cellophane.

Item 13 is apples and apple juice. About 1961 we began to accept apples sold in either 3 lb. or 5 lb. plastic bags, and these generally were a little more expensive than if you were to pick them out of a loose bin. With apple juice, in 1961 we noted that vitamin C began to be added. It may well have been added before 1961, and the significance then of the date 1961 is that it became relatively important and we began to accept the price for the Consumer Price Index purposes. We were unable to observe any price difference, however, when they added vitamin C.

In the fresh vegetable line, we note that celery sticks begin to be trimmed and clipped, a much neater package. We are unable to indicate a precise date. It did appear that there was a significantly higher price charged for this nicely trimmed package of celery.

Item 15 is corn flakes. In 1963 the shift was from an 8 oz. package to the 12 oz. package. Here again I am unable to give you any firm answer as to whether there was an increase in price, or no change, or a decrease; that is, the price per ounce. Certainly the 12 oz. package cost more, but whether it cost relatively more than the 50 per cent increase in size, I do not know.

Item 16 is a cake mix. In 1962 a pouch package cake mix was offered for sale, egg to be added. That is why I underlined that. Certainly it cost less and, basically, there was no powdered egg in it.

Item 17 is flour. In 1964 there was the "instantized" miracle flour, in either a 2 lb. or 5 lb. bag, and there was a definite price increase.

Item 18: Facial tissue is one that supermarkets frequently "special", and one that we have to exercise a good deal of care over in terms of instructions to our enumerators to make sure that they pick the proper size package. In 1962, however, we did notice that there was a definite reduction in the size of some facial tissues from a 9″ x 10″ to an 8.5″ x 9.4″ size, and they continued to charge the same price for the box. Therefore, it represents an increased price. But other kinds of variations occur in the size of the boxes: the number of tissues per box, the ply—sometimes two-ply, sometimes three-ply—and this is an item that is frequently promoted.

Item 19 is toilet paper. In 1962 we were able to detect a definite reduction in the number of sheets per roll from 700 to 650, and they charged the same price; therefore, it represents a price increase per unit, or per sheet, if you like. Again under item (b), in 1965 they further reduced the size of the roll to 600 sheets and they charged the same price.

Item 20 is face soap. In 1965 the change was from wrapping each individual bar separately and then sort of cementing the three bars together, to putting three cakes of soap in a little box in which the individual cakes are not wrapped, and there was an apparent price increase.

Item 21 is soap flakes. In 1965-66 there was a reduction in the size and/or weight, and they continued to charge the same price. Therefore, it represents a price increase per unit of either weight or volume. In 1962 there had been a shift from the so-called "large" size box to a "giant" box. Although the "giant" box might have cost more than the "large" box, its content was proportionately larger, and therefore there was an implied price decrease. Again here, as I noted earlier, we do not price those brands where premiums are attached. I think we discussed this at our previous meeting with you.

Item 22 is cleansing powders. In 1965 there was a conversion from cardboad containers to plastic, and here there was an increase of 2c per unit.

Item 23, liquid detergent was newly introduced some time in about 1963, so I have just noted it as a new product.

Item 24 is liquid bleach. In 1963 there was a conversion from a glass container to a plastic jug, with no price change.

In item 25, floor wax, there is a change that we observed in 1964. It is really a product change, where they shifted to "clear" paste, with no apparent effect on price. We also note—although we are not pricing it—that floor wax is available in liquid form and is now available in a plastic jug. Since we do not price it I am not able to indicate whether it is higher priced than its previous glass container.

That gives you, Mr. Chairman, a number of examples that we were able to extract in the recent five years from the information that we had at hand. I should be pleased to try to answer any questions.

Co-Chairman Senator CROLL: We will get to that in a few minutes. We might as well have Mr. Holmes give his paper, and in the light of both papers the questions will be more intelligible.

Mr. A. D. Holmes, Director, Prices Division, Dominion Bureau of Statistics: Thank you, Mr. Chairman. Each member of the committee has before him a text, a set of tables and a set of charts. I wish to apologize at the outset for the lack of typing in the tables and the lack of proper drafting in the lettering and scales of the charts. As a matter of fact, we did not know that we were going to have this in time because of breakdowns of some of the machinery involved in the process of producing these.

Perhaps I may, with your permission, read from the prepared statement, since you have not had an opportunity to see it before.

In an earlier appearance before this committee, on October 13, the Dominion Bureau of Statistics was requested to provide information on the movements of prices during recent years at various stages in the production and distribution of foods, with particular reference to meats. The intent was to trace through the production and distribution process to pinpoint if possible the sources of price changes. Meats were selected for this purpose because the basic raw material, the live animal, was the basic ingredient of the end-product meat, and at the meat processing and retailing stages represents a significant component of the processors' and retailers' costs. In addition, price statistics are available for live animals, the processors' meat sales and the retailers' sales. For other food products in which the food ingredient is not as significant a component, price statistics for other significant elements of cost are scarce.

Accordingly, two comparisons are presented to you today, one for pork products and one for beef products. In each case the price data are in the form of index numbers which measure the movement of prices monthly from 1961 to the present. The indexes have all been converted to the base 1961=100 to facilitate comparison of movements among them, and the indexes express price in each month as a percentage of prices in 1961.

Indexes, rather than actual prices, have been used because it is difficult to compare the price of a live animal, our basic ingredient, with prices of its separate parts, particularly when all parts of the animal are not available for the comparison. For example, non-food products such as hides which appear at retail in many forms of leather goods are not included, nor are mixed meat such as sausages and sandwich meats. It is the course of change in prices and sources of change that are being looked at, and indexes of prices clearly are appropriate for this purpose.

The comparison will show that a significant source of rise in prices of pork and beef to the consumer over the last two years has been the rise in the price of slaughter animals. According to testimony presented to you on October 6 by members of the Canada Department of Agriculture, the rise in the price of hogs has been caused primarily by the reduced continental supply of hogs and the rise in beef animal prices by the greatly increased demand for beef in relation to the continental supply of beef.

Each member of the committee has been provided with a set of tables and charts. The tables marked A-1 through A-7 present price indexes for hogs and pork products, monthly from January, 1961, to the present. Table A-1 is the price index for hogs at public stockyards and is derived from prices published by the Canada Department of Agriculture in their Livestock and Meat Trade Report. Tables A-2 to A-4 present indexes of the selling prices of the slaughtering and meat packing industry for pork, fresh or frozen, cured hams, and bacon and sides, respectively. They are components of the industry selling price indexes published monthly by the Dominion Bureau of Statistics. Tables A-5, A-6 and A-7 record price indexes of fresh pork, cured pork, and bacon respectively from the consumer price index for Canada.

The charts corresponding to the tables are also marked A: chart A-1 for hog prices, chart A-2, 3 and 4 for the industry selling prices, and chart A-5, 6 and 7 for the consumer price indexes.

Similarly tables B-1, B-2 and B-3, the other set of tables, record respectively the price index for steers at public stockyards, steer carcasses at the packing plant and fresh beef purchased by consumers. Charts B-1, B-2 and B-3 graphically show the movement of the price indexes presented in the three tables.

May I suggest that members of the committee compare first chart A-1 and chart A-2, 3, 4. It is possible by putting chart A-1 over chart A-2, 3, 4 and looking through to the light to see the course of movements of the two. I have

already done this, and I am going to read my conclusions from having done so. If it is a little difficult to follow that procedure, I would suggest that the two charts be placed one below the other so that the comparison of movements can be caught by the eye.

Chart A-1 depicts the movement of prices which the slaughtering and meat packing industry faces in purchasing hogs for slaughter. It represents the impact of price change on a significant component of their cost of production. In 1963 the value of live animals and dressed meats purchased by the industry constituted 72 per cent of the value of shipments of the output of the industry. Chart A-2, 3, 4, portrays the movement of prices received by that industry for three of its principal outputs of pork products.

It is evident in comparing the movements of the "input" prices (hogs) and the "output" prices (pork products) that the industry's selling prices follow the price of hogs fairly closely, though not all pork product prices move simultaneously, nor by the same amount. One can, of course, select particular periods in which the industry's selling prices do not move in correspondence with hog prices, but taken as a whole the correspondence in price change is quite marked.

To April, 1965, both the industry's selling prices and their buying prices exhibited a slight downward trend, and at that time were in approximately the same relative position as in 1961. In April, 1965, the hog price index was at 96.3, the fresh pork industry selling price index was 94.7, the cured hams industry selling price index was 98.4, and the bacon and sides index of the industry selling price was 95.9. They were all very close together. The marked rise in hog prices from April, 1965, to the peak in February, 1966, at 156.3 was accompanied by similar but not quite as marked rise in the industry's selling prices of pork products. In that period hog prices rose 60 points, whereas fresh pork and cured hams rose 44 points and bacon and sides 35 points. The subsequent drop in the hog price index to 122.7 in July, 1966, was accompanied by reductions in the industry's indexes to about the same level. By October, 1966, the industry's prices for fresh pork and for bacon had again risen to 133 and 135 respectively, without a similar upward movement of hog prices.

If we now compare the prices paid by consumers—that is, looking at charts A-5, 6, 7—with the selling prices of the packing industry (chart A-2, 3, 4), considering the latter as depicting the impact of price change on the retailers' costs, a similar correspondence between the movements of retail buying and selling prices will be evident. The retail prices of pork products show less fluctuation than the packers' prices, not falling as far but tending to rise as far and, in addition, the very slight upward trend in retail prices to April, 1965, may be noted, in contrast to the slight downward trend of packers' prices over the same period.

In April, 1965, the industry selling price index in relation to the consumer price index for fresh pork was 94.7 to 101.7 (the latter being the consumer price), for cured hams 98.4 to 102.3, and for bacon and sides 95.9 to 99.8. The difference there is accounted for by the slight downward trend in the packing price and the slight upward trend in the selling price over that five-year period.

The subsequent marked rise in packers' prices between April, 1965, and February, 1966, was accompanied by a similar but somewhat less rise in retail prices, and in early 1966 retailers' buying and selling prices were in approximately the same relative position to one another as in 1961, but all at a much higher level. By October, 1966, the relationship was mixed, with consumer prices for fresh pork dropping further than packers' but not as far for cured pork.

In spite of temporary differences in the movements of prices among the three stages of production and processing of pork products, the data points to a strong continuing correspondence in movements at all levels. In the recent

period, April 1965 to date, the differences in movement are small in relation to the extreme overall movement of prices at all three levels and the rise in the price of hogs is evidently a very significant cause of the rise in consumer prices for pork.

In a similar fashion, one may trace through the fluctuations in the price of steers for slaughter, the industry selling price for steer carcasses, and consumer prices for fresh beef, using charts B-1, B-2 and B-3. Again we can almost take the three charts as they come clipped together; hold them up to the light and see how close the movements are over this period. A comparison of charts B-1 and B-2 reveals a very close correspondence between the movement of the industry's selling price and the movement of the price of their basic raw material, steers. There are, of course, temporary differences in the movements over very short periods. The comparison of charts B-2 and B-3 shows a similar though not as close correspondence between the movements of consumer prices for beef and the industry's selling price. During the period from 1961 to mid-1964 consumers' prices fluctuated less than the packers' selling prices, tending not to rise as far nor to drop as much. In mid-1964 prices were in their same relative position as in 1961. Since 1964, however, consumer prices have tended to rise a little more rapidly than the packers' prices and in 1966 did not reflect the drop in the selling prices of the slaughtering and meat packing industry and the prices of steers at public stockyards.

Senator INMAN: I am interested to know whey these changes in packaging would take place. Were they asked for, or did somebody see a chance to make some money by changing the packaging? For instance, when cheese changed from bulk to pre-packaged, sealed in a cello-pack, there was an increase in price, and when peanut butter changed from a regular jar to a refrigerator jar. What do you mean by a "refrigerator jar"?

Mr. LANE: As to the reasons why these changes in packaging would take place, I don't know; you would have to consult the people who produce these particular products and enquire why they changed.

Senator CARTER: When these packaging changes take place, have you noticed whether there is always somebody who leads the field and starts the ball rolling, or does it happen with a number of companies at the same time?

Mr. LANE: If I may continue to answer the earlier question, Mr. Chairman, a refrigerator jar is a jar specifically designed to fit into the refrigerator. I think it is just a special kind of jar, that is all. There is nothing fancy about it. The original peanut butter jar, as you are no doubt very well aware, was a large jar with the cap a little bit smaller than the glass part of it, whereas the refrigerator jar has a straight side and fits more neatly into the refrigerator. It is just a modification, I think basically taking advantage of the fact that a refrigerator is going in every home. The original peanut butter jars, of course, were designed for the kitchen cupboard; they were not designed to be put into the refrigerator.

Co-Chairman Senator CROLL: Senator Carter asked a question. Do you mind answering Senator Carter, who asked a supplementary?

Mr. LANE: I would like to have him repeat the question.

Senator CARTER: My question was: When you notice these changes taking place, when they first come to your attention, do you know whether a change is brought about by just one company starting out as the leader and the others following, or does it break out spontaneously at the same time by a number of companies?

Mr. LANE: It is very difficult to determine, and, as I have tried to present to you, the sorts of things that we observe typically take place by city. We have noticed, for example, certain cities may be used as a testing ground for some products. We do not know, of course, what the results of the tests are, but we see

these things appear on the shelves; sometimes they are noted, sometimes they are not. Our field people may note them and they just might follow them for a while before they even report it to us. It is very difficult to tell, in the food distribution field, whether there is some leadership going on. There is such a multitude of products so I would say that I just don't know.

Senator INMAN: I have several further questions. The "picnic" cottage roll is changed to "sweet pickled" cottage roll and there is an increase in price. Now, what is the difference, what makes the increase?

Mr. LANE: With the "sweet pickled" cottage roll there is some additional sweetening added to the brine; it produces quite a different effect.

Senator INMAN: I have had some and I don't see much difference. Then you have "standing" rib roast changed to "rolled" roast. They are charging so much, I suppose, for making the roll. Is that correct?

Mr. LANE: Yes.

Senator INMAN: Then with toilet paper there is a decrease from 700 to 600 sheets and there is an increase in price. Why is that, in a short time?

Mr. LANE: Mr. Chairman, if I may just say this, so that you clearly understand, there is an implied increase in price; they charge the same price per roll, but you are getting only 600 sheets per roll today whereas a couple of years ago you were getting 650, and prior to that you were getting 700 sheets per roll. It is an implied price increase.

Senator INMAN: Now I have another question. Cardboard containers for cleansing powders have been replaced by plastic. Has that been requested by the housewives or has it just been done by the processors?

Mr. LANE: I do not know. I think you would have to ask the housewives; you would have to do a survey of consumers to find out their motives, interests and desires on products.

Senator INMAN: I was interested in paper bags for tea. There is an increase with the bags over the bulk tea. What do you have to say about that?

Mr. LANE: Well, you reiterated what I described.

Senator INMAN: Then gauze bags to paper bags.

Mr. LANE: With the change from bulk to gauze bags there is a real change in quality, in effect, because with bulk tea, as the consumer, you have to measure out the quantity; in a bag it is so simple, you just drop the bags in a pot of boiling water.

Senator INMAN: I was wondering why there was the change to paper bags.

Mr. LANE: That I don't know. You would have to ask the tea company.

Mr. MCCUTCHEON: Mr. Chairman, I have one question and one question only, you will be pleased to know. On page 4 Mr. Holmes shows a comparison of price movements. By October, 1966, the industry selling prices for fresh pork and bacon have risen to 133 and 135 respectively without a similar movement of hog prices. Now, this committee has been sitting since September and very diligently staying on the job. Can you give us any information which is really current, which is really up to date? I appreciate that these are excellent charts that you have prepared, but the committee likes to know, I think, if they are doing any good sitting here, so can you give us any information regarding the trend as of today, and I mean today, or this week, since the advent of the housewives' boycott and the instigation of this committee? Do you know from that information that there is an inference that had not something happened these prices might not have come down? In effect, do your reporters tell you that there is a decrease in prices currently?

Mr. HOLMES: The pricing of foods for the Consumer Prices Index for November would be done in the first week of November; this has not been processed yet, so it is not possible to say whether they are down or not.

Mr. MCCUTCHEON: You mean there is no scuttle butt in the office to the effect, "Well, this is happening" or "that is happening"? This is the type of question.

Mr. HOLMES: No scuttle butt has come to my attention. Mr. Lane is part-time on the Royal Commission on Farm Machinery and I do not think he has really the time to hear these things. I myself have heard nothing of this. The industry selling prices indexes are prices as of the 15th of the month; they are hardly in yet; they are in but just beginning to be processed.

Mr. MCCUTCHEON: I was hoping we could get some commendation that we had been doing some good, that is all.

Mr. HOLMES: We feel that in prices we have statistics that are as up to date as any statistics in the world. They are only about a month behind time, which is unusual, as you probably know, for most statistics. As I understand it, the boycott, the general rebellion if you wish, began early in October.

Co-Chairman Mr. BASFORD: Towards the end of September, early October.

Mr. HOLMES: What the price information may indicate in pricing in the early week of November may not reflect the full impact of recent action. It would be too early to really form a judgment as to what effect the action that has been taken by consumer groups so far, or by this committee, may have had.

Mr. LANE: I might just mention that I am sure all members of the committee read the article in the *Globe and Mail* about a week ago on bacon. It attracted my attention, and subsequently I began to read more carefully the "specials" by stores here in the city of Ottawa. In connection with bacon, for example, I found a number of major supermarkets were "specialling" 1 lb. pack of bacon for either 78¢ or 79¢ or 88¢ or 89¢. Now, this is a downward, a rather sharp downward, movement, because previously the lowest price I observed for bacon personally in my own shopping habits was round about $1.29, and I know it ranged up to about $1.49, so I would say there has been some noticeable effect.

Mr. SCOTT: Don't you think that is simply a gimmick? When the packers came here they told us they delivered to the supermarkets at a cost of 83.5¢ a pound, so they are obviously just hoodwinking the housewives temporarily. They will soon bump it back again.

Mr. HOLMES: This was the intent of my remarks, that one month's official statistics is not going to give you an answer to what is going to happen to prices. It is an early indication, but that is all.

Senator INMAN: Supplementary to that, if I may, I bought some excellent bacon last week for 79¢ a pound.

Co-Chairman Senator CROLL: Mr. Scott, when the housewife is buying bacon at 79¢ or 80¢ a pound, don't you think that for the next two or three months, or five or six months, the stores will have an awfully hard job explaining a jump up of any kind? Women have become a little more discriminating in their buying, and they are not taking these things lightly any more.

Mr. SCOTT: I would think that would be one of the effects going from this committee that would encourage the housewife. We are conducting a sort of educational exercise.

Co-Chairman Senator CROLL: Exactly. I don't think they will jump up at all; I think they will be very careful about it.

Mr. Scott: I notice in the supplementary remarks of Mr. Lane this statement:

> We have not had the staff nor time to maintain an adequate commodity intelligence.

We might well feel it important to have such a system, and I wondered if you could give us any indication of your thinking as to the size of staff required for such a purpose.

Mr. Lane: Perhaps if we were to double the current staff that we have in the field, I think we could do a fairly adequate job.

Mr. Scott: What is your present staff?

Mr. Lane: We have approximately 50 part-time enumerators across Canada, and we have 16 full-time people, outside of Ottawa, outside of our headquarters staff.

Mr. Scott: How many in headquarters?

Mr. Lane: We currently have four people in the unit that we call our commodity officers, or commodity specification unit.

Mr. Scott: Have you adequate funds with which to operate?

Mr. Lane: Funds have not been the dilemma. It has been getting the positions and then recruiting people, finding people with the skills.

Mr. Scott: You are satisfied that if it were doubled it would be adequate?

Mr. Lane: Well, we could certainly do a far better job of following market trends, keeping right on top of the kinds of developments that are taking place.

Mr. Scott: I am sure you could do a better job. What I was trying to get at—and I am not trying to put you on the spot—

Mr. Lane: I think this would be a reasonable level.

Mr. Scott: Thank you.

Co-Chairman Mr. Basford: Looking at these charts, A-1, A-2, 3, 4 and A-5.6.7 and superimposing one on the other as you suggested, and looking at charts B-1, B-2 and B-3 and again superimposing them, one sees, as you pointed out, a very nice relationship between the wholesale prices at terminal markets and the Consumer Price Index, both on hogs and beef; there is a very nice relationship between the price increases and decreases, which would indicate to me, without contradiction, that the price increases have been due solely to increases in what the farmers have been getting for their produce.

Senator McDonald: About time.

Mr. Holmes: I would put it the other way. It is not because of what the farmers are getting. It is because of the supply of hogs, that these must be rationed among ourselves and United States consumers; the price mechanism is a rationing mechanism. Obviously the person who is producing the hogs is going to receive a return for it. Perhaps the increased price will call forth increased production of hogs, but I think we must also consider perhaps a changed situation where hogs require feed and maybe feed is not readily available. I am sure those in the department of agriculture would be in a far better position to indicate the possibilities for a change in the supply situation on hogs.

Co-Chairman Mr. Basford: I do not see that that contradicts what I said. If you look at the hog market, it went from an index figure of 92.4 in January, 1965, to an index figure of 156.3 in February, 1966, and the industry selling prices of certain pork parts, cured hams and bacon, and the consumer prices index, followed that increase.

Mr. Holmes: That is correct, yes, and it is the rise in the price of hogs which is reflected in the higher consumer prices for meat.

Co-Chairman Mr. BASFORD: Which would indicate that it is not due to the packer, retailer or wholesaler, or anyone else, but to the farmers.

Mr. HOLMES: Who represent the basic supplier really. I think it is fair to say in the case of hogs that, while it can not change quickly, it does not take too long to change the supply situation, but it certainly does not happen overnight. But the farmer is certainly getting a higher price for his animals.

Co-Chairman Mr. BASFORD: And the retail price, or consumer price index, is, according to these charts anyway, closely related to the farmer's price.

Mr. HOLMES: For the live animal, yes; the movement is the same. There is a basic question: what was the relationship between the price received by the farmer and the price at the other levels in 1961, from which this comparison starts? It could be that in 1961 the return to the farmer was too low to start with, so one can argue that he is now getting what he should have been getting before; someone else would argue the other way. This comparison says nothing about the fairness of the relationship between prices at these various levels in the base period 1961. Nor does it say anything about whether someone is getting too much or too little at a particular point of time. All it says is that they are getting more now than they were in 1961. But I am not objecting to the conclusion. This, I believe, is the same conclusion as I have stated on page 2, that "the comparison will show that a significant source of rise in price...has been the rise in the price of slaughter animals", and according to the testimony presented by the department of agriculture on October 6 this goes back to the continental supply situation, where there has been a reduction in in the basic hog supply, and presumably this would not be corrected until hog production increases.

Co-Chairman Mr. BASFORD: Fine. Well, I will leave it to some of the producers here to disprove that.

Senator MCDONALD: If I might make a supplementary remark, I think the deduction Mr. Basford has arrived at is the true one and the logical one. I do not think it would be fair to leave this impression with the committee without going back and reviewing what was going on in 1961. I speak of western Canada; I do not know anything about eastern Canada. In the west, in the period when this graph began, around 1961, your producers of livestock products in western Canada were producing them, not necessarily to make a profit but because they had huge surpluses of grain that they could not market, so that marketing on the hoof, so to speak, the farmer went into cattle and hogs, not so much to make a profit on his cattle or hog operation as to sell his grain, and you had an increased production in meat. But just as soon as quotas allowed the farmer to sell his grain by the bushel rather than on the hoof he discontinued a probably unprofitable hog and cattle operation and your production of beef and hogs went down. This is what has caused your increase in price.

I think that if you want farmers in western Canada to remain in the beef and hog industry prices have got to remain where they have been over the last short period of time. If you go back to the 1961 prices they will not produce, because the surplus grain situation has changed and disappeared. If prices ever went back to that level, pork and beef prices to the consumer would go much higher than they are today, in order to encourage people to go into production of pork or beef, to make money out of that production, because you have not the situation where they have to do it to market a product that could not be marketed in its original form. I think this is the reason, and I think Mr. Basford's conclusion is absolutely correct.

Mr. MCCUTCHEON: I would like to agree with what the senator has said; there is no question about that. I would also like to make a prediction for Mr. Basford. He has just seen the start of higher prices for farm products, because due to our full employment situation which exists in this country at the present time the farm population is leaving, and leaving rapidly; they cannot get labour.

As a consequence, I think we have proven that the packers apparently have not had their hand in the till any further than maybe they were entitled to. But we are now embarking on a phase where you are going to have to pay for farm products, Mr. Basford, and the sooner it comes the happier I shall be.

Co-Chairman Senator CROLL: He will not be unhappy. He just pointed it out, that is all.

Co-Chairman Mr. BASFORD: No, but I think these are important comments, because we have had a good deal of evidence and questions directed against the distribution processes. If we are to concern ourselves with food prices at the retail level, then, much as some members of the committee wanted to avoid the subject, we have to concern ourselves with production prices at the farm level, and if we can stabilize those prices we will stabilize prices at the retail level.

Senator MCDONALD: Could I make one further comment? What brought it to my mind were the remarks of Mr. McCutcheon in relation to the farm labour problem. In western Canada, when the farmer could not market his grain he was forced to feed livestock to get a market. Of course, farm labour was easier to come by then than it is now. During the 'fifties and early 'sixties the majority of farmers in western Canada had a few sows and a few pigs; the majority had a few head of livestock. But we are living today in a land of specialization, or lack of farm labour. The average farmer today does not have any sows; there are not nearly as many farmers with livestock of any kind as there were ten years ago. Lack of labour has driven them out of it.

Today, if you are going into a hog enterprise you do not have two or ten sows; you have 100, or 500, or 1,000; you are in a business. I think that all of our meat production in the future will come from huge operations that have to be financially sound as an individual operation. You are not going to find the farmers, of western Canada at least, and I would very much doubt eastern Canada, in the future who have cows, chickens, pigs and everything else. If they are producing hogs, they will produce them and nothing else; it has to be a viable operation. If they are producing poultry, they will produce nothing else; it has to be viable.

This has not been true in the past, especially in western Canada. I do not know about the east, but I know it is true in the west. Your production in the future must come from a large operation, and nobody can have a large operation of the type I am thinking about unless it is viable, and therefore prices to the producer have to be at a level where he can pay for his investment, his operating costs and provide a living. I think you will see prices remain at that level. I think your deduction is absolutely right, that the majority of this increase as far as meat products are concerned has gone to the producer.

Senator CARTER: I think practically all my questions have already been covered, but I would just like to clarify one or two points on this change in packaging. With soft drinks, when there was a change from bottles to tins, did the contents remain the same or did the tins have more or less in them?

Mr. LANE: As you know, you can buy bottled soft drinks in 6 oz., 10 oz., 12 oz. and 30 oz. sized bottles. I think when the tins first came out they continued to be sold, by and large, in about the 10 oz. size.

Senator CARTER: What is the size of the ordinary soft drink bottle, commonly used?

MR. LANE: Six usually.

Senator CARTER: So you took that into account when you said there was an increase?

Mr. LANE: No, I said it was unknown.

Senator CARTER: Are the non-returnable bottles the same size as the original ones?

Mr. LANE: Yes. A number of the supermarkets are selling large bottles of, let us say, ginger ale or Coca Cola, something like that, in non-returnable bottles. When you have consumed the contents you throw the bottles in the garbage can.

Senator CARTER: But they are sold in smaller bottles too?

Mr. LANE: Yes.

Senator CARTER: Was the refrigerator peanut butter jar that Senator Inman was enquiring about the same size? Was it just a different shape but the same size?

Mr. LANE: I think there was a difference in size. We would have taken it into account; this figure would take it into account.

Senator CARTER: That is what I am getting at.

Mr. LANE: Yes, I have tried to take that sort of thing into account and express differences on an equivalent unit, either by per ounce, or per pound, or some agreed weight.

Senator CARTER: Was there any special reason why tea in paper bags was not sold in the maritime provinces?

Mr. LANE: I understand that initially the paper packaged tea bags did not sell, they were not acceptable to the Maritimes.

Co-Chairman Senator CROLL: I still do not think they are acceptable. The Maritimes are very wise.

Mr. LANE: They are beginning to move in there, and recently—in January I think it was—in Halifax they converted from gauze bags to paper bags.

Mr. Chairman, perhaps I might just make one further point on the question that Mr. Basford raised. In comparing these movements of the different levels one would also have to take into account productivity gains in the different sections. The productivity gains in agriculture at the farm level might be quite sharply different from productivity gains at the packing plant or at the retail distribution end. So even though the movements might be the same, if there were different rates of change in productivity, then somebody is taking a little bigger slice of the pie, if there is a parallel movement in prices.

Co-Chairman BASFORD: Yes, and the evidence from the Department of Agriculture is that productivity on the farm has increased greatly.

Mr. LANE: Yes.

Senator CARTER: Just one other question for clarification. On chart B-2, you say it is "Industry Selling Prices Indexes. Good Steer, Grade B, carcass". Does that mean you have consolidated all these into this one chart?

Mr. HOLMES: No. That is the specification of the commodity or product of the industry that is covered by the price index.

Senator CARTER: You have converted these prices, you told us, back to 1961?

Mr. HOLMES: 1961=100.

Senator CARTER: 1961 is 100, and based on that you have worked out the variations since then. Are we to understand then that the same change is taking place in Grade B as in the good steer, the same index, or have these two been consolidated into one?

Mr. HOLMES: No, this relates to Grade B, good steer. Am I wrong? Are those conflicting specifications?

Senator CARTER: That is what I cannot quite understand. I do not quite understand the significance of this.

Mr. HOLMES: This related not to choice steers or commercial, but what, as we understand, is classed as good steer.

Senator CARTER: This relates to one product, Grade B?

Mr. HOLMES: Right.

Senator CARTER: In the carcass form?

Mr. HOLMES: Right.

Senator MCDONALD: Is that what they call "blue" branded beef?

Mr. HOLMES: The consumer price indexes for beef relate to both "red" and "blue", do they not?

Mr. LANE: Whatever the store's policy is, whatever they handle. Some stores handle only choice or "red" brand and some handle only "blue"; some handle only commercial and some mix them up, they will handle "red" and "blue" together. We would stick with the grade in the store that we are getting price reports from, whatever their policy is.

Senator CARTER: But when you get the price for Grade B beef, do not you deal with more than one, do not you have more than one price coming from more than one source?

Mr. HOLMES: Oh yes, across the country. This represents the movement for Canada as a whole.

Senator CARTER: These are Canada as a whole?

Mr. HOLMES: Yes, it represents the industry's movement.

Senator CARTER: You have nothing similar to choice beef, but I assume if you did have it would follow the same pattern?

Mr. HOLMES: I am not sure whether we price choice. In our price work we may select one specification to represent a group. Where the movements of several related grades are not the same, then we would want to price more than one, but if they move very closely together in what we call "price families" we would take a sample of one out of them to represent the group. I cannot tell you offhand whether we are also pricing choice. I think we may.

Mr. CHOQUETTE: Do you have a French copy?

Mr. HOLMES: I do not, but I can have it translated and made available, if you wish.

Mr. CHOQUETTE: I would be delighted. May I bring up the following question, and I say this without any fanaticism. Perhaps you have a very good reason for not having a translation. I just want to say that during the weekend I attended a political meeting at which there was put to one of the two major parties in the Province of Quebec a motion to the effect that Quebec should be declared unilingual, and it was a very tight vote. A year ago the same motion was put to the other major political party, Union National, but they did not deal with it. People like myself who fought that motion do not want Quebec to be unilingual. One ground on which we base our argument is that bilingualism is making a lot of progress across Canada, but if bilingualism is not fully respected in this building, in the Parliament of Canada, then we shall have no argument to produce against the motion which was presented last week. Please help us to create a Canadian ideal. Would it not be possible for an official institution such as D.B.S. to present a report in French, so that we can tell our people in Quebec that you have full bilingualism in the Canadian Parliament? Please, I am asking you.

Co-Chairman Senator CROLL: Dr. James, have you anything to say with respect to that?

Dr. JAMES: Mr. Chairman, I feel I should explain to the committee that the Dominion Bureau of Statistics should be absolved of all responsibility with this problem which has arisen. The sequence of events is that Professor L.A. Skeoch, of Queens University, was scheduled to appear before the committee this

afternoon, but because of illness in his family he was unable to come. We did not learn this until Friday, I believe, and Mr. Holmes was kind enough to agree on the basis of two days notice to appear before the committee to present this evidence.

Now, I felt that this was an imposition on their resources, and I must say that I was glad to see that they were able to appear at all, and if they could not have the material available, I know it was simply because of the lack of time. However, I personally will accept the responsibility for this difficulty.

Co-Chairman Senator CROLL: Mr. Choquette put it very well. He said, "Help us to accomplish what we are trying to do." He can understand that in certain circumstances that is exactly what happened, and there is nothing one can do.

You will understand, Mr. Choquette, that the Senate was called into session this afternoon. There have beeen 20 committee meetings today, and it is just impossible to get enough people to administer these sort of things, and some of us have to go without, that is all. I am sure that everybody will understand. I do think the point is made that from a government department it ought to be automatic, that is the point, and we will leave it at that. Thank you. Has anyone any further questions?

Mr. MCCUTCHEON: I have one more observation I would like to make, Mr. Chairman. I cannot vouch for the accuracy of these figures which I have in front of me, but on the basis of quick arithmetic and the figures you gentlemen have been good enough to give us, the producer's price is up 27.4 per cent since 1960. Pork delivered to retail is up 33 per cent. Bacon is up 27 per cent, but fresh pork at retail is up 41 per cent. This is based on figures between October 1964 and October 1966. Have we found the gentleman in the woodpile?

Co-Chairman Senator CROLL: That is what you call instant arithmetic.

Mr. HOLMES: Are these figures based on calculations using the index provided in these tables?

Mr. MCCUTCHEON: Yes.

Mr. HOLMES: Then they must be right, apart from any calculation made. I could work this out by longhand without my machine handy.

Mr. MCCUTCHEON: I do not think it is necessary. If there was a bad mistake in the arithmetic I would be embarrassed, and nobody wants to be embarrassed. You might check that through for us if it could be done. I would appreciate having these figures verified.

Mr. HOLMES: The first figures comes from the A-1 table, the second from the A-2 table, and the third will come from the A-5 table; is that correct?

Co-Chairman Senator CROLL: I think that is right.

Mr. HOLMES: I can verify those figures. Would you like me to verify them right now? It is a matter of doing it in longhand.

Co-Chairman Senator CROLL: We might as well have it now.

Mr. HOLMES: The figures we end up with here by our rough calculations are: at the producer level, up 29 per cent; at the slaughtering meat industry level, up 30 per cent at the retail level, fresh pork, up 24 per cent. At the retail level—we are using the same figures—the index on fresh pork has moved from 104.5 in 1964 to 129.1 in October 1966. This is table A-5. So it must be less than 29 per cent.

Mr. MCCUTCHEON: I stand corrected. That must be so.

Co-Chairman Senator CROLL: Are there any other questions? If not, may I first say that we are going to hold a meeting of the steering committee here now.

I want to thank Mr. Holmes and Mr. Lane for coming back here and giving us some further very useful information, which will become part of the record. Thank you very much.

Whereupon the committee adjourned.

TABLE—A-1

WHOLESALE PRICES SECTION

Wholesale Price Indexes of Canadian Farm Products at Terminal Markets
Base: 1961=100

Commodity: HOGS
Selling prices at public stockyards

	1961	1962	1963	1964	1965	1966
January	106.9	92.2	105.1	92.8	92.4	150.9
February	105.5	94.9	102.4	95.4	95.3	156.3
March	96.7	93.1	93.7	89.4	96.3	133.6
April	90.4	94.2	85.2	87.5	96.7	117.0
May	96.3	100.6	94.0	92.1	104.6	128.9
June	103.7	110.9	103.5	103.7	123.8	136.3
July	106.8	116.3	106.0	98.1	128.3	122.7
August	100.7	114.8	101.9	98.0	128.3	124.8
September	101.2	105.1	98.1	97.3	128.3	121.1
October	102.2	104.1	89.8	93.7	129.5	121.1
November	96.8	107.0	92.7	93.6	136.4	
December	92.9	106.6	92.0	92.5	147.0	
Average						

SOURCE: Basic price data collected by Dept. of Agriculture.

TABLE—A-2

WHOLESALE PRICES SECTION

Industry Selling Price Indexes
Base: 1961=100

Commodity: PORK, FRESH OR FROZEN
Prices, delivered to retail trade

	1961	1962	1963	1964	1965	1966
January	108.0	90.8	105.1	92.1	96.2	135.6
February	106.4	91.6	104.5	93.0	100.6	138.8
March	100.6	91.0	98.8	89.7	95.8	120.0
April	93.2	91.9	91.6	88.2	94.7	106.7
May	98.1	100.3	96.3	91.2	96.6	114.1
June	105.9	114.4	110.6	106.4	118.6	127.9
July	105.5	118.6	110.2	100.9	117.7	123.4
August	98.4	118.5	103.6	101.3	118.3	127.9
September	99.8	111.2	102.0	104.1	117.6	132.7
October	99.0	111.2	96.6	101.5	129.0	131.6
November	92.9	107.7	91.9	97.3	129.6	
December	92.1	106.5	92.7	96.9	136.3	
Average						

SOURCE: Basic price data collected by Dept. of Agriculture.

TABLE—A-3

WHOLESALE PRICES SECTION

Industry Selling Price Indexes
Base: 1961=100

Commodity: HAMS, CURED
Prices, delivered to retail trade

	1961	1962	1963	1964	1965	1966
January	103.4	97.3	106.3	97.5	97.1	137.5
February	103.6	97.6	105.7	98.8	100.2	142.9
March	102.6	97.0	101.9	96.8	99.4	133.1
April	99.1	95.7	96.6	95.0	98.4	117.0
May	95.7	98.9	95.5	95.9	99.1	118.0
June	97.8	105.3	101.9	101.5	112.6	124.7
July	98.8	110.7	103.6	101.2	116.6	122.1
August	101.0	114.6	104.3	101.4	118.4	128.6
September	101.0	109.0	101.0	100.4	115.1	123.6
October	100.1	107.5	99.4	98.8	118.2	125.1
November	98.8	106.8	96.6	97.1	122.6	
December	98.4	106.8	98.4	97.8	137.2	
Average						

SOURCE: Basic price data collected by Dept. of Agriculture.

TABLE—A-4

WHOLESALE PRICES SECTION

Industry Selling Price Indexes
Base: 1961=100

Commodity: BACON AND SIDES
Prices, delivered to retail grade

	1961	1962	1963	1964	1965	1966
January	99.7	91.2	99.4	86.7	92.7	126.8
February	101.5	92.1	99.4	89.6	94.8	131.0
March	98.5	90.0	96.2	87.8	95.9	122.8
April	93.4	91.1	88.7	88.5	95.9	113.3
May	94.8	94.8	91.8	89.8	99.7	116.9
June	99.6	100.4	97.6	95.8	114.8	126.5
July	100.7	105.2	98.9	91.8	121.9	126.6
August	103.1	109.9	101.0	94.8	130.0	136.3
September	108.6	110.6	100.9	97.8	129.2	135.4
October	109.3	103.8	91.6	95.2	131.0	130.5
November	97.8	99.7	84.8	94.0	126.2	
December	93.5	100.5	85.5	92.5	135.2	
Average						

SOURCE: Basic price data collected by Dept. of Agriculture.

TABLE A-5

RETAIL PRICES SECTION

Consumer Price Indexes
Base: 1961=100

Commodity: Fresh Pork

	1961	1962	1963	1964	1965	1966
January	103.2	97.4	106.1	99.6	102.6	130.9
February	102.1	95.7	106.7	98.5	103.0	133.6
March	102.5	95.8	105.0	97.1	103.1	135.1
April	98.3	95.5	101.1	97.0	101.7	124.2
May	95.4	95.7	97.4	97.6	101.1	118.2
June	98.9	100.8	102.5	101.0	107.8	124.1
July	99.9	107.4	105.0	103.4	114.8	124.9
August	101.7	111.5	107.2	105.3	116.2	125.5
September	101.0	109.8	104.0	105.3	118.2	127.5
October	100.7	110.9	103.3	104.5	118.5	129.1
November	98.8	108.4	100.7	102.7	123.4	
December	97.0	106.2	98.8	102.0	126.8	
Average						

TABLE—A-6

RETAIL PRICES SECTION

Consumer Price Indexes
Base: 1961=100

Commodity: Cured Pork

	1961	1962	1963	1964	1965	1966
January	98.4	99.1	106.2	97.1	101.5	136.2
February	101.3	97.9	106.2	99.2	102.1	141.2
March	101.2	97.1	105.3	99.6	102.2	142.2
April	98.6	97.3	102.7	99.6	102.3	132.4
May	96.6	97.7	99.7	98.3	102.3	125.3
June	97.5	99.9	100.7	100.7	107.1	130.6
July	98.3	104.9	102.6	102.7	115.1	130.7
August	101.5	110.4	104.4	103.4	123.7	135.4
September	101.3	111.9	106.0	102.0	125.7	138.2
October	102.8	108.3	104.3	103.5	125.8	132.5
November	102.4	108.1	101.6	101.8	125.8	
December	99.8	107.3	98.9	102.1	128.4	
Average						

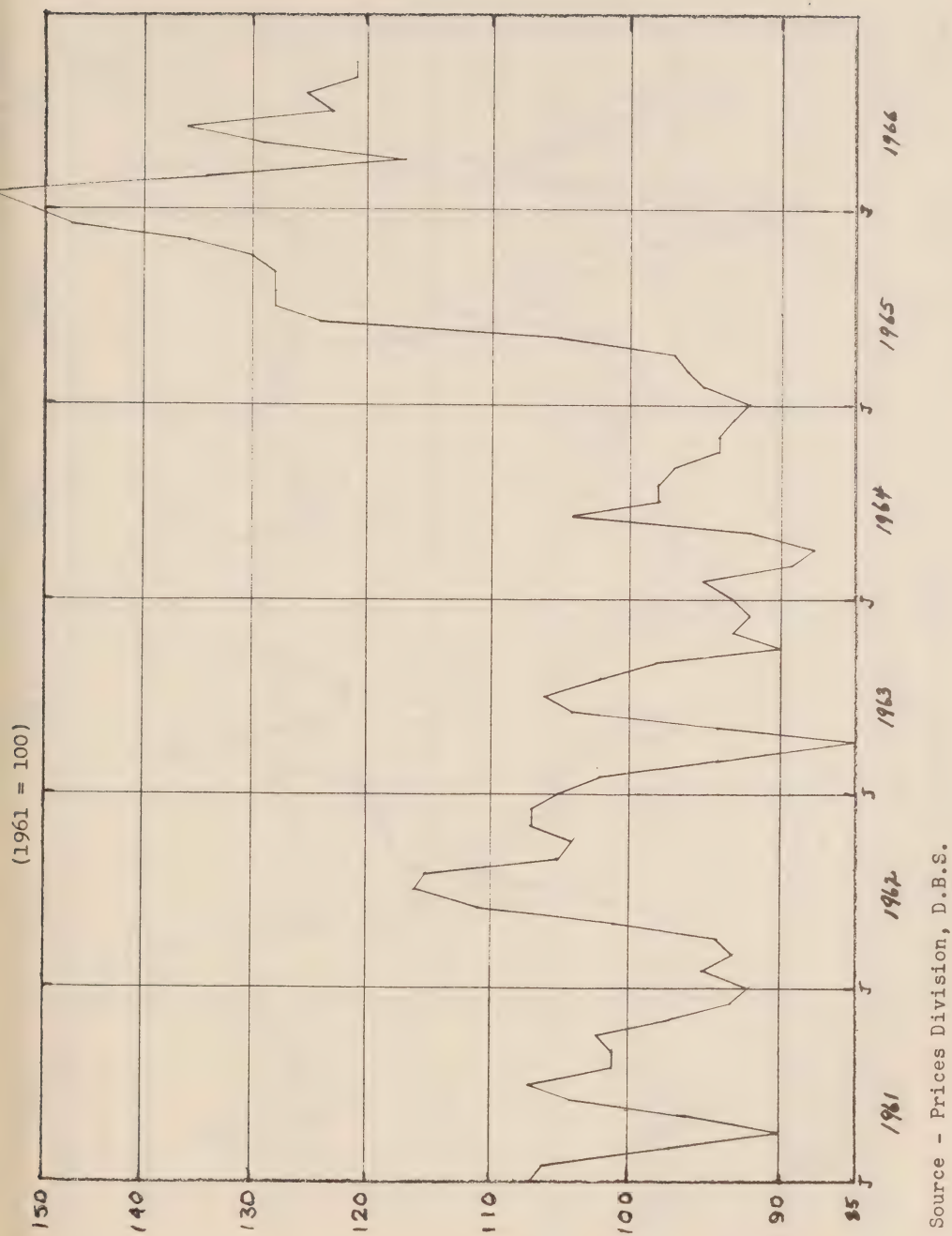
TABLE—A-7

RETAIL PRICES SECTION

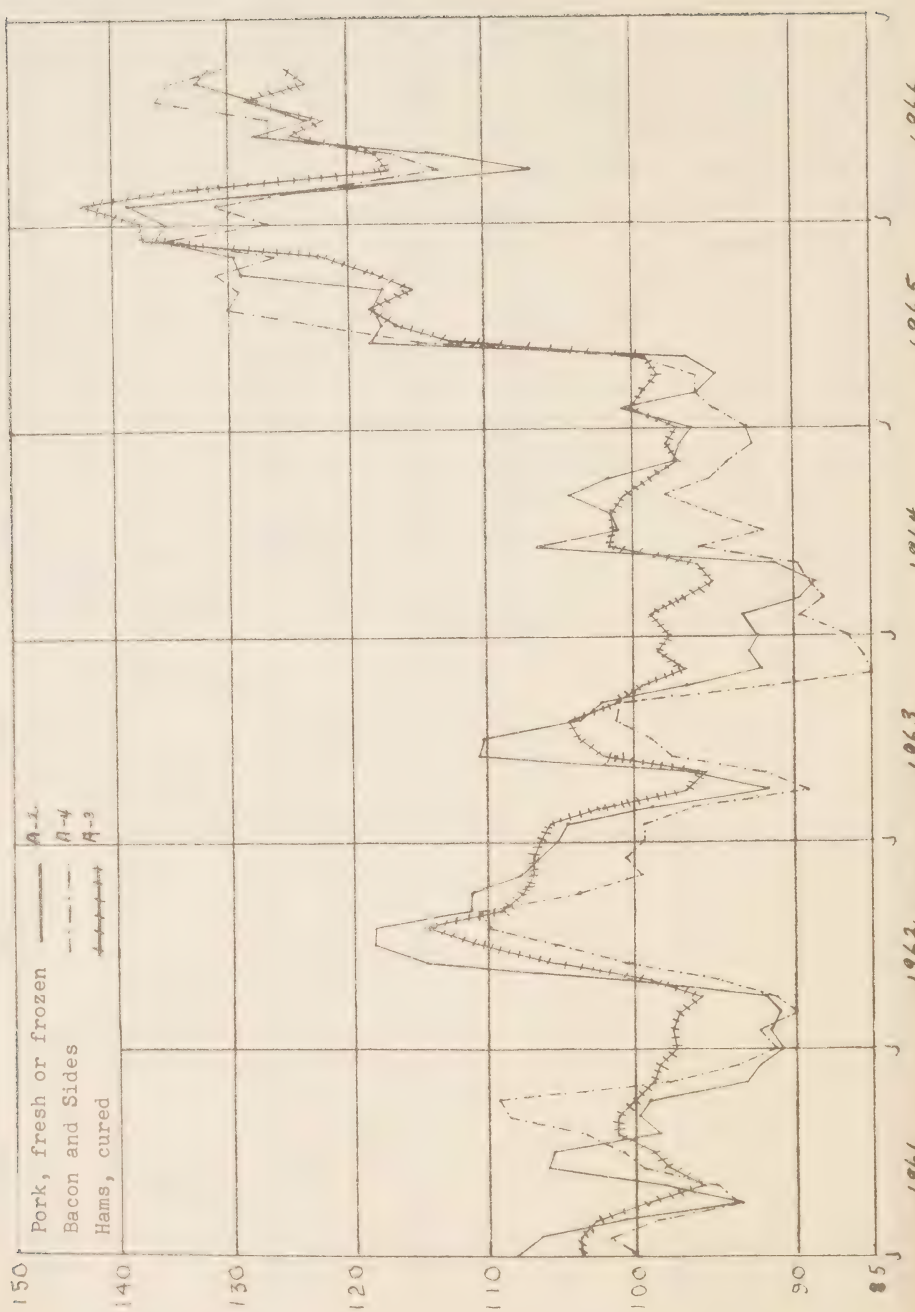
Consumer Price Indexes
Base: 1961=100

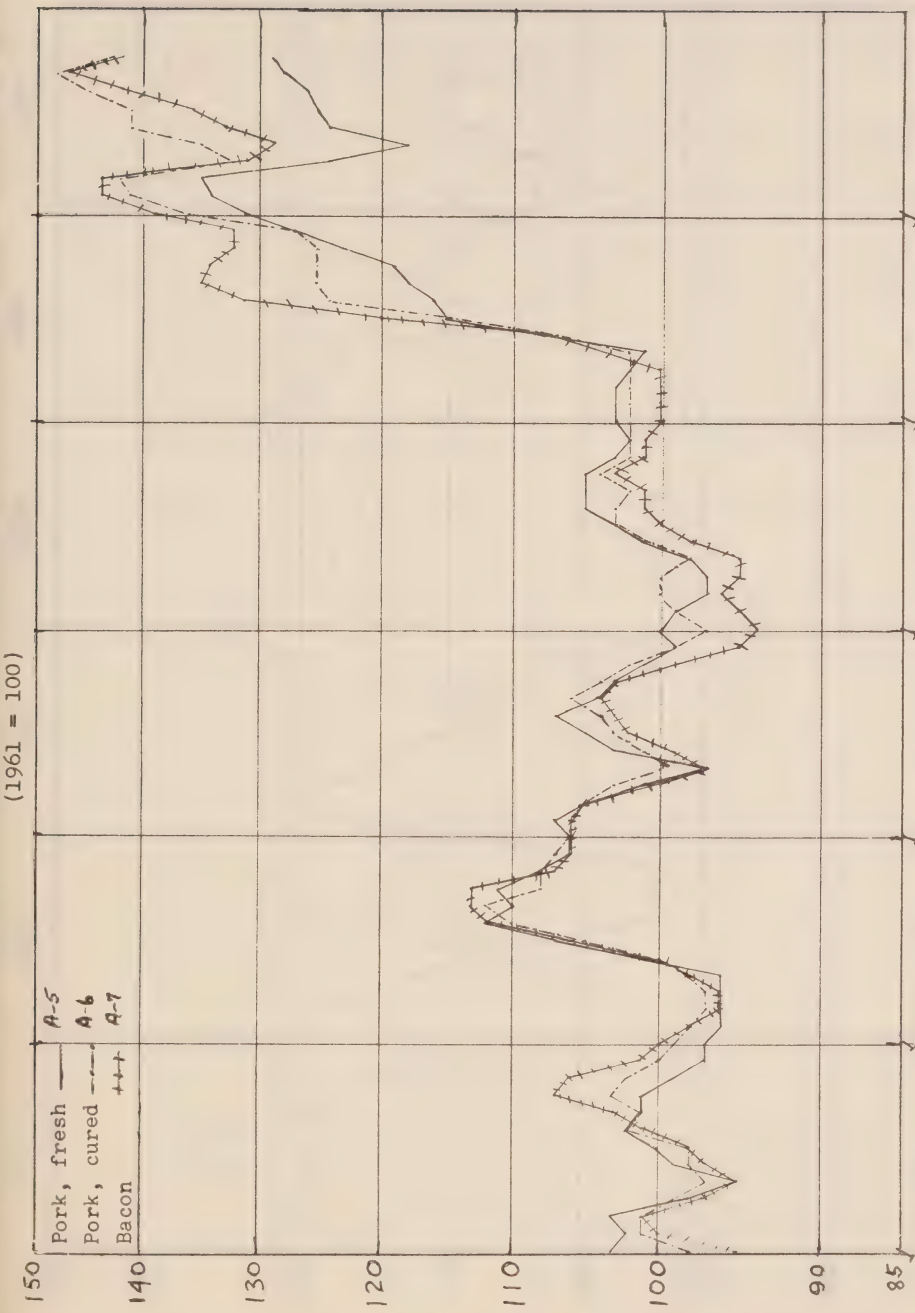
Commodity: Bacon, side, fancy quality

	1961	1962	1963	1964	1965	1966
January	95.4	99.8	105.8	94.0	99.5	138.7
February	99.7	97.6	105.6	95.4	99.7	144.0
March	100.7	96.0	104.7	95.8	99.8	144.1
April	96.6	96.2	100.4	95.4	100.1	131.2
May	94.9	97.8	97.4	95.4	101.3	129.2
June	96.8	100.1	99.0	97.6	108.4	132.8
July	98.0	106.4	101.7	100.1	119.8	136.1
August	100.7	111.9	102.7	100.9	130.5	142.4
September	103.1	112.5	103.9	101.0	135.3	147.3
October	107.4	112.5	103.1	102.5	133.8	141.9
November	105.6	107.4	98.9	100.9	132.4	
December	101.3	106.2	95.2	100.7	131.5	
Average						



Source - Prices Division, D.B.S.


A-2, 3, 4
Industry Selling Price Indexes
(1961 = 100)
Pork, fresh or frozen A-2
Bacon and Sides A-4
Hams, cured A-3
150
140
130
120
110
100
90
85
J
1961
1962
1963
1964
1965
1966



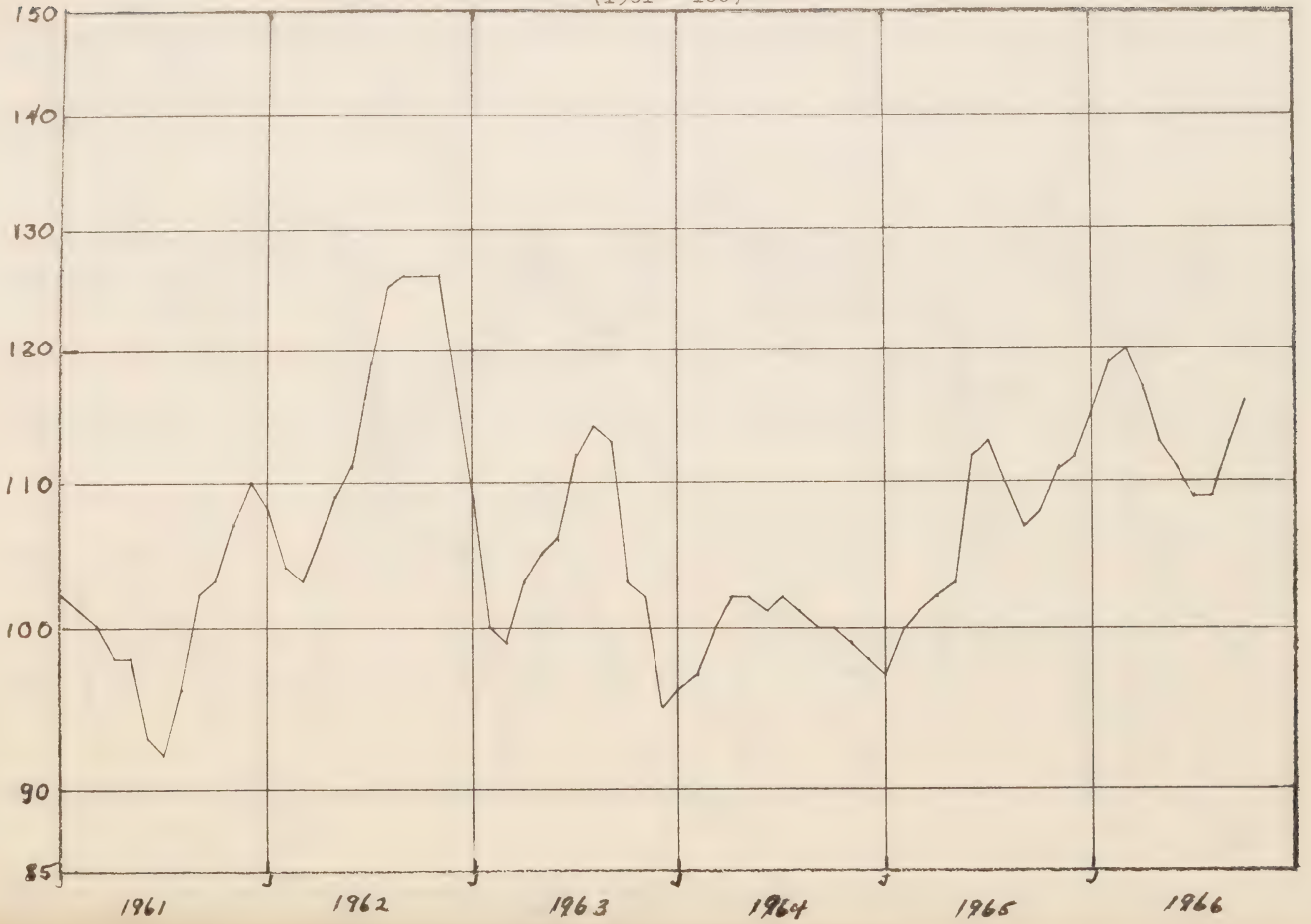
Source - Prices Division, D.B.S.

STEERS

B-1

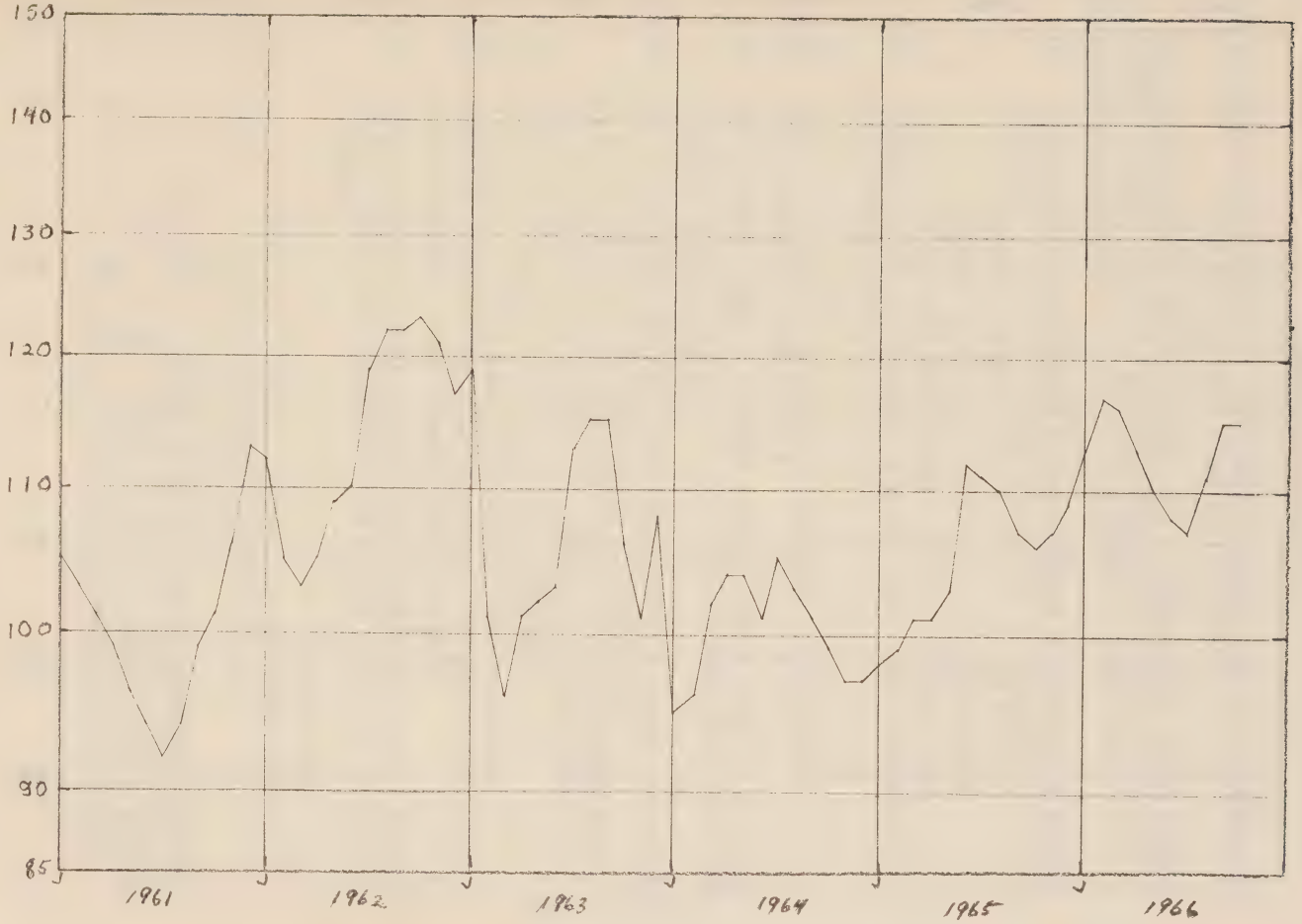
Wholesale Price Indexes of Canadian Farm Products at Terminal Markets

(1961 = 100)



Industry Selling Price Indexes - Good Steer, Grade B, carcass

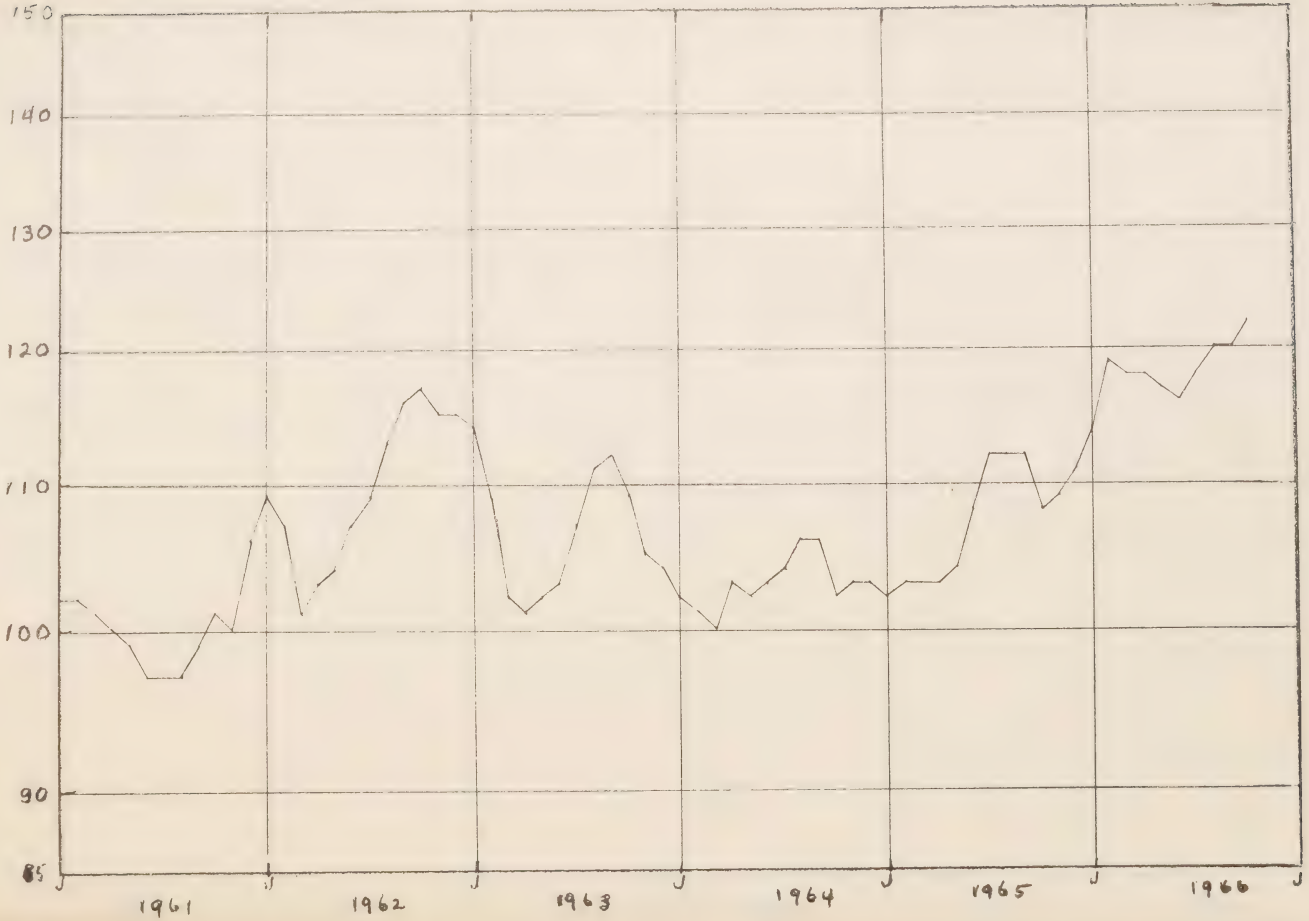
(1961 = 100)



Source - Prices Division, D.B.S.

Consumer Price Indexes for Beef - Red and Blue

(1961 = 100)



APPENDIX NO. 10

SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON CONSUMER CREDIT (PRICES)

The following replies are extracted from correspondence dated November 10 and November 24, 1966 and received from the Canada Department of Agriculture over the signature of Mr. S. B. Williams, Assistant Deputy Minister (Production & Marketing).

p. 173: Percentage of domestic and foreign produced food retailed in Canada. The reply is based on average consumption in the period 1960-1964.

Domestic Origin	78 per cent
Imports	22 per cent
Total food consumption	100 per cent

p. 186: Comparison of Canadian and U.S. egg prices. (See Schedules 186-1 and 186-2 attached.)

p. 190, p. 193, 194: Day-to-day trends in prices to producers (May-October). (See Schedule 190-1 attached.)

p. 218: Mr. Cameron asked a question about the chief cause of the sharp increase in beef exports to the U.S. in 1965 and 1966. (See Schedule 218-1 attached.)

p. 226: Mr. Olson asked for some information relating D.B.S. retail prices to the samplings of the Department of Agriculture.
This information is included in our reports to the Committee respecting the anatomy of a pig and the anatomy of a choice steer.

p. 231: Anatomy of a pig. (See Schedule 231-1 attached.)

p. 236: Anatomy of a choice steer. (See Schedule 236-1 attached.)

p. 241: Tobacco: Revised Statement submitted by Mr. C. R. Phillips, Director General. (See Schedule 241-1 attached.)

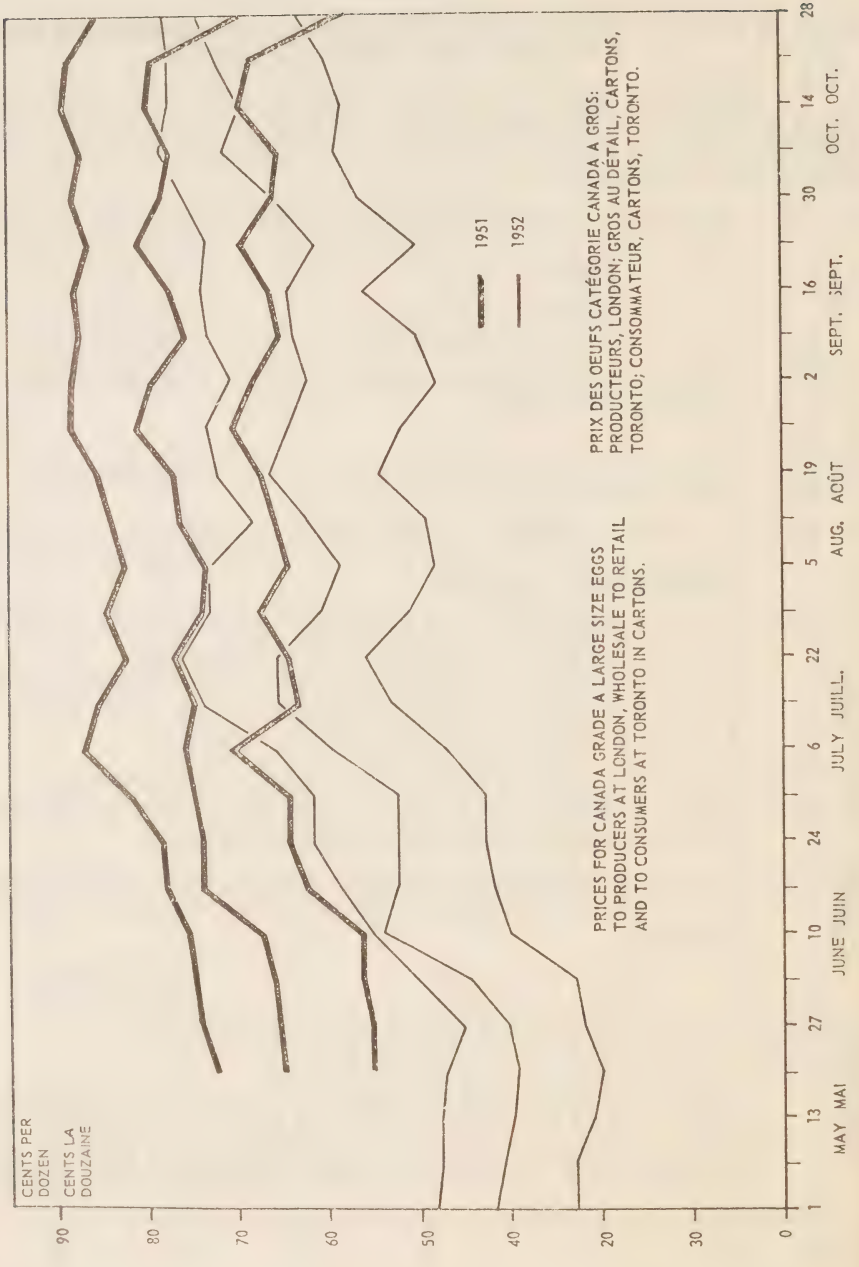
p. 304: The portion of the total milk production in British Columbia handled by the Fraser Valley Milk Producers and the Vancouver Island Milk Producers.

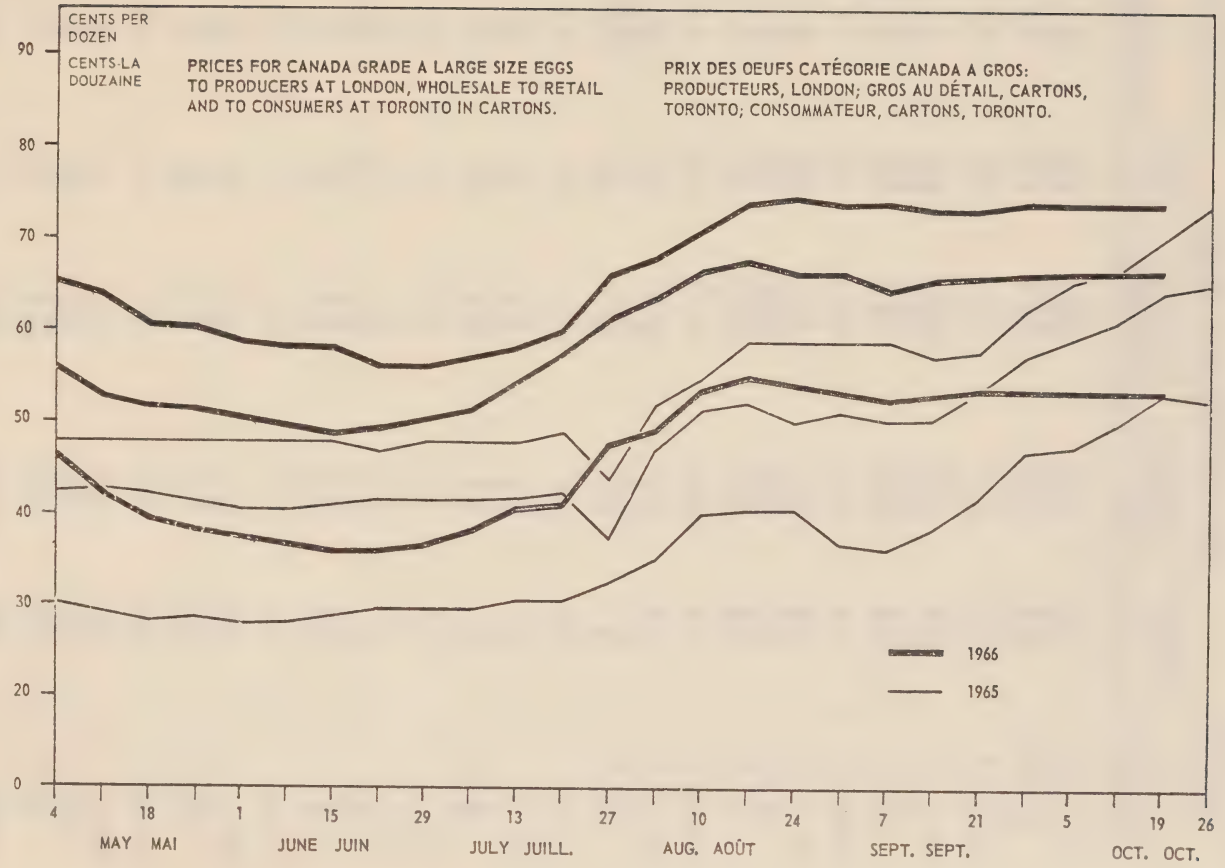
1964	50.0 per cent
1965	51.5 per cent

p. 316: Fruit and Vegetable. (See Schedule 316-1 attached.)

p. 319: Return to farmers from a loaf of bread.
The farmer receives for the wheat in a loaf of bread approximately 12 per cent of the retail price of the loaf. We do not have figures which break down the cost structure of a loaf of bread to include the return to the farmer of the other agricultural raw materials.

Schedule 186-1




CENTS PER DOZEN
CENTS LA DOUZAINE
PRICES FOR CANADA GRADE A LARGE SIZE EGGS TO PRODUCERS AT LONDON, WHOLESALE TO RETAIL AND TO CONSUMERS AT TORONTO IN CARTONS.
PRIX DES OEUFS CATÉGORIE CANADA A GROS: PRODUCTEURS, LONDON; GROS AU DÉTAIL, CARTONS, TORONTO; CONSOMMATEUR, CARTONS, TORONTO.
90
80
70
60
50
40
30
20
0
1966
1965
4
18
1
15
29
13
27
10
24
7
21
5
19
26
MAY MAI
JUNE JUIN
JULY JUILL.
AUG. AOÛT
SEPT. SEPT.
OCT. OCT.

EGG PRICES — 1965 — LE PRIX DES ŒUFS

(Canada Grade A Large Size Eggs in Ontario at Various Levels of Sale)

(Canada Catégorie A Grosseur Gros en Ontario à différents niveaux de vente)

Date	Producer Price London — Aux producteurs	Spread — Écart	Wholesale to Retail Toronto in Cartons — Grossistes aux détaillants en cartons a Toronto	Spread — Écart	Retail Toronto in Cartons — Aux consommateurs en cartons Toronto
Jan. 5	27	11.9	38.9	9.1	48
12	24.5	12.1	36.6	8.4	45
19	22.5	12.8	35.3	8.2	43.5
26	20.5	14.4	34.9	6.6	41.5
Average	23.6	12.8	36.4	8.02	44.5
Feb. 2	19.5	15.5	35.0	6.5	41.5
9	22	14.3	36.3	6.2	42.5
16	23.5	14.1	37.6	6.4	44
23	24.5	14.4	38.9	5.1	44
Average	22.4	14.6	36.9	6.05	43.0
Mar. 2	26.5	13.4	39.9	7.1	47
9	25.5	14.3	39.8	7.2	46
16	25.5	14.3	29.8	6.2	46
23	26.5	13.2	39.7	6.3	46
30	27.3	13.3	40.8	6.2	47
Average	26.3	13.7	40	6.6	46.4
April 6	27.5	14.0	41.5	6.5	48
13	29	12.4	41.4	4.1	45.5
20	29	12.8	41.8	4.7	46.5
27	30	12.1	42.1	6.9	48
Average	28.9	12.8	41.7	5.5	47.0
May 4	30	12.3	42.3	5.7	48
11	29	13.4	42.4	5.6	48
18	28	14.1	42.1	5.9	48
25	28.5	12.8	41.3	6.7	48
Average	28.9	13.2	42.0	5.9	48
June 1	28	12.7	40.7	7.3	48
8	28	12.7	40.7	7.3	48
15	29	12.0	41.0	7.0	48
22	29.5	12.0	41.5	5.5	47
29	29.5	12.0	41.5	6.5	48
Average	28.8	12.3	41.1	6.7	47.8
July 6	29.5	12.1	41.6	6.4	48
13	30.5	11.4	41.9	6.1	48
20	30.5	11.6	42.1	6.9	49
27	32.5	5.1	37.6	6.4	44
Average	30.7	10.0	40.6	6.4	47.3
Aug. 3	35	12.0	47.0	5.0	52
10	40	11.6	51.6	3.4	55
17	40.5	12.0	52.5	6.5	59
24	40.5	9.7	50.2	8.8	59
31	37	14.2	51.2	7.8	59
Average	38.6	11.9	50.5	6.3	56.8
Sept. 7	36.5	13.8	50.3	8.7	59
14	38.5	12.3	50.8	6.7	57.5
21	42	11.7	53.7	4.3	58
28	47	10.3	57.3	5.2	62.5
Average	41.0	12.0	53.0	6.2	59.2

EGG PRICES — 1965 — LE PRIX DES ŒUFS

(Canada Grade A Large Size Eggs in Ontario at Various Levels of Sale)			(Canada Catégorie A Grosseur Gros en Ontario à différents niveaux de vente)		
Date	Producer Price London — Aux producteurs	Spread — Écart	Wholesale to Retail Toronto in Cartons — Grossistes aux détaillants en cartons a Toronto	Spread — Écart	Retail Toronto in Cartons — Aux consommateurs en cartons Toronto
Oct. 5	47.5	11.8	59.3	6.2	65.5
12	50	11.2	61.2	5.8	67
19	53.5	11.1	64.6	5.9	70.5
26	53	12.8	65.8	8.2	74
Average	51.0	11.7	62.7	6.5	69.2
Nov. 2	50	14.7	64.7	9.3	74
9	48.5	15.0	63.5	8.5	72
16	49	13.7	62.7	8.3	71
23	53	10.5	63.5	7.5	71
30	53	11.0	64.0	7.0	71
Average	50.7	13.0	63.6	8.1	71.8
Dec. 7	50.5	12.8	63.3	8.1	71.5
14	51	13.0	64.0	7.0	71
21	51.5	11.8	63.3	8.2	71.5
28	47	12.2	59.2	8.8	68
Average	50	12.5	62.4	8.0	70.5
Average for year	35.1	12.5	47.7	6.7	54.4
Average May to October inclusive	30.3	11.9	48.2	6.4	54.5

EGG PRICES — 1966 — LE PRIX DES ŒUFS

(Canada Grade A Large Size Eggs in Ontario at Various Levels of Sale)			(Canada Catégorie A Grosseur Gros en Ontario à différents niveaux de vente)		
Date	Producer Price London — Aux producteurs	Spread — Écart	Wholesale to Retail Toronto in Cartons — Grossistes aux détaillants en cartons a Toronto	Spread — Écart	Retail Toronto in Cartons — Aux consommateurs en cartons Toronto
Jan. 4	39.5	15.0	54	9.0	63
11	34.5	14.7	49.2	9.3	58.5
18	34	14.1	48.1	8.9	57
25	35	13.3	48.3	8.7	57
Average	35.7	14.3	49.9	9.0	58.9
Feb. 1	36.5	12.1	48.6	8.4	57
8	37.5	11.9	49.4	9.6	57
15	37.5	12.1	49.6	7.4	57
22	38	12.1	50.1	7.9	58
Average	37.4	12.1	49.4	8.3	57.3
Mar. 1	38	12.7	50.7	7.3	58
8	38.5	12.8	51.3	5.7	57
15	40	12.2	52.2	5.8	58
22	42	12.5	54.5	6.5	61
29	44	13.2	57.2	5.3	62.5
Average	40.5	12.7	53.2	6.1	59.3
Apr. 5	46	12.9	58.9	6.6	65.5
12	46	13.4	59.4	6.1	65.5
19	46.5	13.3	59.8	7.2	67
26	46.5	12.7	59.2	8.3	67.5
Average	46.3	13.1	59.3	7.1	66.4
May 3	46	9.8	55.8	9.2	65
10	42	10.7	52.7	10.8	63.5
17	39.5	12.1	51.6	8.9	60.5
24	38	13.2	51.2	8.8	60
31	37.5	12.8	50.3	8.2	58.5
Average	40.6	11.7	52.3	9.2	61.5
June 7	36.5	13.1	49.6	8.4	58
14	36	12.7	48.7	9.3	58
21	36	13.1	49.1	6.9	56
28	36.5	13.7	50.2	5.8	56
Average	36.3	13.2	49.4	7.6	57
July 5	38	13.5	51.5	5.5	57
12	40.5	13.6	54.1	3.9	58
19	41	16.3	57.3	2.7	60
26	47.5	14.0	61.5	4.5	66
Average	41.8	14.4	56.1	4.2	60.3
Aug. 2	49	14.8	63.8	4.2	68
9	53.5	12.8	66.3	4.7	71
16	55	12.9	67.9	6.1	74
23	54	12.4	66.4	8.1	74.5
30	53.5	12.7	66.2	7.8	74
Average	53.0	13.1	66.1	6.2	72.3
Sept. 6	52.5	12.3	64.8	9.2	74
13	53	12.4	65.4	8.7	73.5
20	53.5	12.5	66.0	7.5	73.5
27	53.5	12.7	66.2	7.8	74
Average	53.1	12.5	65.6	8.3	73.8
Average for year 1966	42.9	13	55.8	7.3	63.06
Average for May to Sept., inclusive	45.1	12.9	58.0	7.1	65.1

EGG PRICES — 1952 — LE PRIX DES ŒUFS

(Canada Grade A Large Size Eggs in Ontario at Various Levels of Sale)

(Canada Catégorie A Grosseur Gros en Ontario à différents niveaux de vente)

Date	Producer Price London — Aux producteurs	Spread — Écart	Wholesale to Retail Toronto in Cartons — Grossistes aux détaillants en cartons à Toronto	Spread — Écart	Retail Toronto in Cartons — Aux consommateurs en cartons Toronto
May 1	33	9.0	42	6.0	48
6	33	8.0	41	6.5	47.5
13	31	9.0	40	7.5	47.5
20	30	9.5	39.5	7.5	47
27	32	8.5	40.5	4.5	45
Average	31.8	8.8	40.6	6.4	47.0
June 3	33	11.5	44.5	5.5	50
10	40	14.0	54	1.0	55
17	42	10.5	52.5	6.0	58.5
24	43	9.5	52.5	9.0	61.5
30	43	9.5	52.5	9.0	61.5
Average	40.2	11.0	51.2	6.1	57.3
July 8	47	12.5	59.5	6.0	65.5
15	53	12.5	65.5	8.0	73.5
22	56	9.5	65.5	10.5	76
29	51	10.0	61	12.0	73
Average	51.8	11.1	62.9	9.1	72.0
Aug. 5	48	10.5	58.5	14.5	73
12	49	13.0	62	6.0	68
19	54	12.5	66.5	5.5	72
26	52	12.5	64.5	8.5	73
Average	50.8	12.1	62.9	8.6	71.5
Sept. 2	48	14.0	62	8.5	70.5
9	50	13.5	63.5	9.5	73
16	56	8.0	64	9.5	73.5
23	50	11.0	61	12.0	73
30	56	9.5	65.5	10.0	75.5
Average	52	11.2	63.2	9.9	73.1
Oct. 7	59	12.0	71	7.0	78
14	58	11.0	69	8.0	77
21	60	12.0	72	5.2	77
28	63	11.0	74	3.5	77.5
Average	60	11.5	71.5	5.9	77.4
Average for 6 months	47.0	10.9	57.9	7.4	65.6

EGG PRICES — 1951 — LE PRIX DES ŒUFS

(Canada Grade A Large Size Eggs in Ontario at Various Levels of Sale)			(Canada Catégorie A Grosseur Gros en Ontario à différents niveaux de vente)		
Date	Producer Price London — Aux producteurs	Spread — Écart	Wholesale to Retail Toronto in Cartons — Grossistes aux détaillants en cartons à Toronto	Spread — Écart	Retail Toronto in Cartons — Aux consommateurs en cartons Toronto
May 1	53	10	63	7.5	70.5
8	not available				
15					
22	55	9.5	64.5	7.5	72
29	55	10	65	8.5	73.5
Average	54.3	9.7	64	7.8	72.0
June 5	56	9.5	65.5	9.0	74.5
12	56	11.0	67	8.0	75
19	62	11.5	73.5	4.0	77.5
26	64	9.4	73.5	4.5	78
Average	59.5	10.4	69.9	6.4	76.3
July 3	64	10.5	74.5	7.0	81.5
10	70	10.5	80.5	6.0	86.5
17	63	11.5	74.5	10.5	85
24	64	12.5	76.5	5.5	82
31	67	6.5	73.5	10.5	84
Average	65.6	10.3	75.9	7.9	83.8
Aug. 7	64	9.0	73	9.0	82
14	65.5	10.5	76	7.5	83.5
21	67	9.5	76.5	8.5	85
28	70	10.5	80.5	7.5	88
Average	66.6	9.9	76.5	8.1	84.5
Sept. 4	68	11.0	79	9.0	88
11	65	10.5	75.5	11.5	87
18	66	11.0	77	10.5	87.5
25	69	11.5	80.5	5.5	86
Average	67	11.0	78.0	9.1	87.1
Oct. 2	66	12.0	78	10.0	88
9	65	12.0	77	10.0	87
16	69	10.5	79.5	9.5	89
23	68	11.0	79	9.5	88.5
30	58	11.0	69	16.0	85
Average	65.2	11.3	76.5	11.0	87.5
Average for 6 months	63.6	10.5	74.1	8.5	82.6

1965

EGG PRICES U.S.A. — PRIX DES ŒUFS ÉTATS-UNIS

Average Price Grade A Large Size Eggs Per dozen at mid-month — Prix moyen par douzaine d'œufs pour la catégorie A Grosseur Gros (au milieu du mois)

	Received by Farmers U.S.A. — Reçu par les producteurs É.U.	Spread — Écart	Del. Wholesale to Retailers Los Angeles in cartons — Du grossiste aux détaillants Los Angeles en cartons	Spread — Écart	Consumer Price in Urban Areas — Prix aux consommateurs dans les centres urbains
January	31.4	8.6	38–42	12.0	52.0
February	31.1	5.4	34–39	12.4	48.9
March	30.8	4.7	33–38	11.9	47.4
April	32.9	4.6	35–40	12.9	50.4
May	29.5	5.0	32–37	15.2	49.7
June	30.0	5.5	33–38	12.1	47.6
July	31.6	6.9	36–41	11.0	49.5
August	34.2	7.3	39–44	9.9	51.4
September	36.2	9.3	43–48	10.5	56.0
October	37.0	10.5	45–50	11.3	58.8
November	38.0	7.5	43–48	12.8	58.3
December	41.2	10.3	49–54	10.8	62.3
Average for year	33.7	7.1	40.8	11.9	52.7
1966					
January	37.5	11.0	46–51	11.0	59.5
February	41.3	10.2	49–54	10.3	61.8
March	41.6	11.9	51–56	8.0	61.5
April	38.3	10.2	46–51	11.5	60.0
May	33.2	9.3	40–45	13.5	56.0
June	32.9	9.6	40–45	8.0	50.5
July	35.4	8.1	41–46	9.7	53.2
Average Jan.-July	37.2	10.0	47.2	10.3	57.5

SOURCE—Poultry & Egg Situation U.S.D.A. September 1966.
SOURCE—Poultry & Egg Situation U.S.D.A. Septembre 1966.
NOTE:—Spreads and averages were determined by using the mid-point in the wholesale to retail price.
A NOTER:—Les écarts et les moyennes furent déterminés en employant le point mitoyen du prix du grossiste aux détaillants.

Mr. Cameron asked a question about the chief cause of the sharp increase in beef exports to the U.S. in 1965 and 1966.

The increase in beef and veal exports from Canada that occurred since 1963 has been primarily due to the availability of boneless beef from the increased volume of cow slaughter.

Year	Total exports of beef and veal[a] — Pounds	% change from previous year	Exports of boneless beef[b] — Pounds	% change from previous year
1963	19,920,000	− 8.4	9,424,800	− 8.3
1964	34,242,100	+ 71.9	15,982,015	+ 69.6
1965	82,704,500	+141.5	42,449,005	+165.6

[a]SOURCE: Trade of Canada Exports.
[b]SOURCE: Markets Information Section, C.D.A.
NOTE: Preliminary figures for exports to the U.S. from Canada to October 29, 1966, show a total of 47.8 million pounds compared with 49.2 million pounds for the same period in 1965.

Cow slaughter in 1963 totalled 595,000 head (11,442 weekly) and by 1965 had increased to 842,000 head (16,192 weekly), an increase of 41.5 per cent. In 1966 the slaughter of cows in Canada was substantially above levels of a year ago until May. Since then cow slaughter has been under year ago levels. To the end of October 1966 cow slaughter totalled 648,769 head compared with 636,077 head for the corresponding period in 1965—virtually the same.

In addition to cow slaughter, increased heifer and veal marketings have also contributed to the increase in exports of beef and veal from Canada. In general, two factors have contributed to the increase in cattle slaughter. In 1964, and again in 1965, many areas in Canada experienced severe drought conditions, particularly in Eastern Canada. As a result of poorer pastures and lower feed supplies, many farmers reduced the size of their breeding herds.

The second factor contributing to the increase in exports is related to what the industry refers to as the cattle cycle. Between 1950 and 1958 Canada experienced one complete cattle cycle. (Ref. Chart A, Proceedings No. 5, p. 251.) The next cycle in Canada started with cattle number rising from a low in 1958 to a peak in 1965. The first stage of the downswing in this cycle occurred in 1966.

The cattle cycle is a result of many factors. In addition to changing feed supplies, producers are constantly adjusting their cattle numbers to the optimum level under an ever-changing market. The build-up phase of the cattle cycle requires keeping breeding stock off the market. This tends to reduce the market supply of beef. At a latter stage of the cycle the offspring of the retained breeding stock, plus the normal flow of cattle, come to market. At this point the market becomes unfavorable and some liquidation of the breeding herd (cows and heifers) also occurs. This results in the reduction of cattle numbers on farms and hence the downswing in the cycle. When the relationship between costs and returns becomes more favorable, the build-up phase of the next cycle starts again.

SCHEDULE 231–1

ANATOMY OF A PIG

1. MARKETING (Farm to Packing Plant)

	"Direct" Producers' Costs	*Packers' Transportation Costs*
(1) Through a Public Stockyard	Trucking to P.S.Y. Commission 25 cents per head (approx.) Yardage 35 cents per head (approx.)	Moving hogs from P.S.Y. to Plant
(2) Direct to Plants	Trucking to Plant	Nil
(3) Through a Marketing Board (Ontario for example	Trucking to Assembly Yard Marketing Board charge 40 cents	Moving from Assembly Yard to Plant

2. PROCESSING (From delivery of hog at Packing Plant to delivery of pork products to buyer (retailer, wholesaler or on export))

Expenses involved in processing (including buying costs)

1. Buying
2. Killing
3. Chilling
4. Cutting (includes defatting and boning in varying degrees)
5. Curing
6. Smoking
7. Cooking
8. Packaging
9. Storage (as may be required)
10. Selling
11. Delivery

"Credits" (Revenue producing by-products—other than products derived from the carcass)

Heart
Liver
Killing fats
Glands
Blood
Hair

3. BREAKDOWN (COMPONENTS) OF A HOG CARCASS IN A PACKING PLANT

Average Weight (warm) of carcasses 155 lbs. approximately

At an estimated average yield of 77 percent the approximate average weight of live hogs in 201 lbs.

Approximate Yield of Fresh (not cured and/or smoked) product from a carcass (warm dressed weight basis)

The yield of individual cuts varies considerably, due mainly to the degree of defatting and also to the type of hog.

(a) *Five Major Cuts*

	With Back made into a "Loin"	Weight from 155 lb. Carcass	With Back made into a "Boneless Back"	Weight from 155 lb. Carcass
	— percent —		— percent —	
Ham	20.5	31.8	20.5	31.8
Loin	13.9	21.5	8.9	13.8
Belly	13.2	20.5	13.2	20.5
Butt	7.7	11.9	7.7	11.9
Picnic	7.6	11.8	7.6	11.8
5 major cuts	62.9	97.5	57.9	89.8
(b) *Secondary Products*				
Hock, feet & tail	4.3	6.7	4.3	6.7
Spareribs, back & ribs	3.0	4.6	3.5	5.4
Tenderloin	nil	..	0.8	1.2
Kidney	0.4	0.6	0.4	0.6
Head & Tongue	6.1	9.5	6.1	9.5
Jowls & Trimmings	3.1	4.8	3.6	5.6
Leaf fat, back fat, and lard fat	13.2	20.5	14.2	22.0
Bones	2.0	3.1	4.2	6.5
Skin and Scrap	2.0	3.1	2.0	3.1
Shrink (cooler and cutting)	3.0	4.6	3.0	4.6
	37.1	57.5	42.1	65.2
Total	100.0	155 pounds	100.0	155 pounds

N.B. If the 5 major cuts are sold in the form of boneless cured and smoked product, the percentage yield from the carcass is sharply reduced:

Major Cut	Approximate % Yield from Carcass (Warm dressed weight)
Ham	13.0
Back	8.9
Belly	11.7
Butt	6.9
Picnic	7.0
	47.5

The packer derives at least 80% of the total returns from a carcass, out of the product of the five major cuts.

4. LIST OF THE MAIN PORK PRODUCTS (AVAILABLE TO RETAILER) FROM THE FIVE MAJOR CUTS

(a) *Products in "bone-in" (not boneless) form*

If major cuts are sold in "bone-in" form a packer would produce some, or all, of the following products:

	Fresh	*Cured and/or smoked and/or fully cooked ("ready to eat")*
HAM:	Whole ham	(1) Ham cured and smoked, either whole or portions thereof. —Skin on; partly skinned; fully skinned. —Shank on or shankless. —May be "ready to eat" (2) Packaged centre slices of above product.
BACK:	Whole Loin	(very little sold)
BELLY:	Whole belly —may be "rib in" or "rib out"	Nil
[1]BUTT:	Whole butt or portion thereof	Nil
[1]PICNIC:	Whole picnic —Shank on or shankless	(1) Whole picnic cured and smoked. —Shank on or shankless. (2) Whole picnic, cured, not smoked.

[1]The butt and picnic may be sold in one original piece as:

(a) A "New York Shoulder" (partly skinned; neckbone removed; shank on or shankless).

(b) A "Montreal Shoulder" (fully skinned; neckbone on; shankless).

(b) *Products in "Boneless" Form*

If major cuts are sold in "boneless" form, a packer would produce some or all of the following products:

	Fresh	*Cured and/or smoked and/or fully cooked ("ready to eat")*
HAMS:	Boned and rolled —skin on or skin off	(1) Cryovac or cellophane wrapped boneless smoked ham, either whole or some portion thereof. —may be fully cooked (2) Packaged slices of above product. (3) Whole cooked hams, cured but not smoked. —packaged slices of above product (4) Canned hams.
BACK:	Boneless Back —Long or short cut —May be two tied together	(1) Boneless cured and smoked back, whole or pieces. —Packaged slices of above product. (2) Cured (not smoked) back, whole or pieces. —Packed slices of above product.

4. LIST OF THE MAIN PORK PRODUCTS (AVAILABLE TO RETAILER) FROM THE FIVE MAJOR CUTS

	Fresh	*Cured and/or smoked and/or fully cooked ("ready to eat")*
BELLY:	Nil	(1) Cured and smoked side ready for slicing —Rind on or rind off. (2) Packaged sliced bacon.
BUTT:	Boned and rolled	(1) Cryovac or cellophane wrapped boneless smoked butt, whole or halves. —may be fully cooked. This cut is generally referred to as a "Cottage Roll" and may be sold unwrapped. (2) Cryovac or cellophane wrapped, cured (not smoked) butt, whole or halves.
PICNIC:	Nil	(1) Cryovac or cellophane wrapped, boneless cured and smoked picnics, whole or halves. (2) Cryovac or cellophane wrapped, cured (not smoked) picnic, whole or halves. (3) Canned picnics.

5. SECONDARY (PORK PRODUCTS DERIVED FROM OTHER THAN THE FIVE MAJOR CUTS) HANDLED AT RETAIL LEVEL

Product	*Form*
Hocks	Fresh, pickled; Boned, pickled, cooked and jellied.
Feet	Fresh, pickled; Boned, pickled, cooked and jellied.
Tongues	Pickled; Pickled, cooked and jellied; Canned.
Spare-ribs	Fresh
Tenderloins	Fresh
Kidneys	Fresh
Jowls	Cured and smoked
Fat	Packaged Lard

N.B.—Heart and Liver are removed on the killing floor and form part of the "credits" (revenue producing by-products — other than those derived from the carcass). Therefore, they are not included in "secondary products* from the carcass (as listed on page 2). However, they are sold at retail in fresh form.

6. PRICE RELATIONSHIP OF 5 MAJOR WHOLESALE CUTS

There is not any definite stable pattern, due to supply and demand, but in general:

- — Loins bring the highest price
- — Hams generally rank second
- — There is usually some discount on butts under hams
- — Bellies, generally, over a long period, will average a little discount under butts. However, Canadians are heavy consumers of bellies (breakfast bacon) and in times of light hog runs, as has been the case since mid 1965, bellies will sell higher than butts.
- — Picnics bring the lowest price.

Official price data on all of the five major cuts is not available. L. N. Reynolds Company Ltd., Meat Brokers in Toronto, issue a weekly market letter. Their quotations, for Toronto, for representative weeks are listed below:

Week Ending	Hams	Backs	Bellies	Butts	Picnics
Oct. 22, 1966	47	73 — 75	45	49	40
Sept. 24, 1966	45	86 — 87	53 — 54	55	37 — 38
Aug. 20, 1966	50½— 51	76 — 77	58— 59	56 — 57	36
July 23, 1966	50 — 50½	70 — 71	50½— 51	49 — 51	36 — 37
June 18, 1966	47½— 48	72 — 73	54½	48	41 — 42
May 21. 1966	49	69 — 70	49 — 51	45 — 45½	41 — 42
Apr. 23, 1966	45 — 46	61 — 62	47 — 47½	40 — 41	36 — 37
Mar. 26, 1966	48 — 49	64 —	42 —	48 — 49	39 — 40
Feb. 19, 1966	60½ —61	75 —	54 — 54½	57 — 58	47 — 48½
Jan. 22, 1966	61 — 61½	72 —	53 — 54	53 — 54	44
Dec. 18, 1965	59½— 61	72 —	52 — 53	55 — 56	45 — 46
Nov. 20, 1965	54½— 55½	70 — 71	47½— 48	53 — 53½	43 — 43½
Oct. 23, 1965	47½— 48	73 — 74	47½— 48	49 —	39 —
Sept. 25, 1965	47 — 47½	69 — 70	50 — 51	47 — 48	35 — 36
Aug. 21, 1965	51 — 51½	67 —	54 — 55	44 — 45	34 — 35
July 24, 1965	51 — 52	62 —	50 — 51	43½— 44½	32 —
June 26, 1965	51 — 51½	63 —	45 — 45½	44 — 46	32 — 33
May 22, 1965	44½— 45	58 — 59	37 — 38	36 — 37	30 — 31
Apr. 24, 1965	42 — 42½	52½	32½— 33½	35½— 36	28½— 29
Mar. 27, 1965	43 — 43½	52½— 53½	32½— 33	36 — 36½	28½— 29
Feb. 27, 1965	41 — 41½	53½— 54	33 — 33½	36½— 37½	29
Jan. 23, 1965	41	51 — 52	29½— 30	33 — 33½	—

AVAILABLE PRICE DATA RE HOGS AND PORK PRODUCTS

(A) *SOURCE: C.D.A.*

1. Grade A carcasses (weekly, monthly and annual)

2. Weekly average wholesale Dressed Meat Prices. (Maritime Centres, Montreal, Toronto area, Winnipeg, Edmonton and Vancouver).

Ham, boneless, smoked, not fully cooked
Cooked ham, cured not smoked. Boiled (whole)
Loins, fresh, regular trim
Side Bacon, rindless, flat pack
Shoulder, New York trim, fresh, shankless
Cottage rolls (butt), smoked, not fully cooked
Picnic, shankless, smoked, not fully cooked
Sausage, pure pork, lb. package

(B) *SOURCE: D.B.S.*

1. Monthly Average Wholesale prices at specified cities (Maritime Centres, Montreal, Toronto, Winnipeg and Vancouver).

Hams, boneless, smoked, not fully cooked
Fresh loin, regular trim
Bacon, rindless, ½ lb. pack
New York shoulder, shankless, picnic shankless, smoked, fully cooked
Sausage (pure pork) 1 lb. pack

2. Monthly Average Retail prices at specified cities (Halifax, St. John, Montreal, Toronto, Winnipeg, Regina, Edmonton and Vancouver).

Pork chops
Bacon, rindless ½ lb. pack
Boston butt, fresh
Sausage (pure pork) 1 lb. pack

3. National Monthly Average Retail Prices
   Ham, boneless, smoked, not fully cooked
   Pork chops
   Bacon, rindless ½lb. pack
   Boston butt, fresh
   Sausage, 1 lb. pack.

TABLE I

HOG MARKETINGS

CANADA:

WEEKLY AVERAGE GRADINGS

—000—

	1961	1962	1963	1964	1965	1966
January	119.4	144.2	119.9	141.0	150.2	120.3
February	120.2	140.7	125.2	146.8	146.4	129.7
March	124.8	144.6	130.5	137.2	153.6	138.2
April	133.4	138.7	128.4	150.0	148.3	132.8
May	118.0	126.9	122.9	135.0	141.5	126.4
June	113.5	116.5	117.1	130.5	128.3	121.0
July	110.0	105.3	110.5	121.5	124.7	117.0
August	111.1	108.3	112.9	123.4	124.6	124.2
September	125.1	117.2	126.3	135.2	129.5	132.2
October	137.5	130.6	140.1	141.7	131.8	
November	147.8	135.3	142.4	153.8	135.2	
December	128.4	116.4	128.5	162.7	121.8	
YEAR	124.0	126.8	125.4	140.0	136.1	
TOTAL GRADINGS	6,449.0	6,593.9	6,520.8	7,281.6	7,077.1	

UNITED STATES:

WEEKLY AVERAGE INSPECTED SLAUGHTER

—000—

	1961	1962	1963	1964	1965	1966
January	1,436.0	1,524.5	1,583.2	1,739.0	1,511.8	1,179.8
February	1,269.5	1,328.0	1,416.2	1,474.5	1,325.2	1,162.5
March	1,222.0	1,245.0	1,311.8	1,284.0	1,306.8	1,161.2
April	1,262.2	1,418.0	1,585.8	1,620.2	1,450.5	1,325.8
May	1,399.2	1,450.0	1,477.5	1,369.0	1,179.8	1,228.2
June	1,081.6	1,008.2	976.0	1,007.6	943.4	934.4
July	1,080.0	1,174.8	1,248.8	1,232.0	1,107.2	1,057.0
August	1,278.5	1,303.5	1,293.5	1,210.2	1,187.5	1,272.0
September	1,048.0	947.4	1,173.6	1,126.0	1,095.0	1,175.4
October	1,555.8	1,660.8	1,693.8	1,701.0	1,355.2	
November	1,581.8	1,594.0	1,594.8	1,636.5	1,375.8	
December	1,147.6	1,190.8	1,339.0	1,329.6	1,002.0	
YEAR	1,262.2	1,303.3	1,376.5	1,378.2	1,225.2	
TOTAL SLAUGHTER	65,632.0	67,770.0	71,577.0	71,667.0	63,708.0	

TABLE II

HOG PRICES

TORONTO:

MONTHLY AVERAGE PRICE—GRADE "A" CARCASSES

	1961	1962	1963	1964	1965	1966
January	$30.06	$26.63	$30.27	$26.85	$27.44	$42.73
February	29.50	26.83	29.89	27.61	28.23	43.19
March	27.28	26.88	26.89	25.92	27.80	36.12
April	25.38	27.23	24.25	25.38	27.94	32.90
May	27.05	27.92	26.49	26.40	30.46	36.83
June	29.53	31.09	29.55	29.08	34.81	38.29
July	29.89	33.07	29.96	28.41	36.24	35.12
August	28.84	32.80	28.99	28.10	36.66	33.98
September	29.40	30.60	28.60	28.24	36.88	33.92
October	28.67	29.59	26.57	27.13	35.90	
November	27.61	30.30	26.32	27.12	37.58	
December	27.16	30.42	26.88	27.63	41.64	
YEAR	$28.30	$29.60	$27.80	$27.30	$33.40	

CHICAGO:

MONTHLY AVERAGE PRICE NOS. 1, 2 AND 3 BARROWS AND GILTS

(Live Prices Converted to Dressed Equivalent on a Basis of 75 percent)

	1961	1962	1963	1964	1965	1966
January	$24.04	$23.49	$21.72	$20.52	$22.69	$38.89
February	24.72	22.72	20.69	20.37	23.49	38.31
March	23.88	22.25	19.15	20.11	23.49	33.60
April	23.47	22.08	18.96	19.87	24.51	31.45
May	23.04	21.63	20.93	21.13	28.21	33.04
June	23.36	23.68	23.77	22.45	32.28	34.52
July	24.41	25.13	25.21	23.88	33.12	34.24
August	24.61	25.12	23.65	23.36	33.47	35.16
September	24.44	25.47	21.57	23.04	31.17	32.33
October	23.20	23.03	21.08	21.41	32.13	
November	22.07	22.91	20.12	20.40	33.75	
December	33.19	22.75	20.21	21.97	38.39	
YEAR	$23.71	$23.36	$21.43	$21.55	$29.72	

TABLE III

WHOLESALE DRESSED MEAT PRICES[1] TORONTO

1966	Smoked Ham	Cooked Ham	Loin	Bacon	New York Shoulder	Cottage Roll	Picnic	Sausage
				Cents per Pound				
September	90.1	101.1	71.7	100.2	50.3	80.3	51.1	56.4
August	93.3	108.1	68.2	100.2	50.5	80.6	53.4	59.0
July	89.1	103.6	66.8	84.5	49.4	75.8	53.2	57.4
June	90.9	101.5	67.1	92.7	49.9	72.2	55.6	56.9
May	88.3	98.9	62.9	86.9	47.0	69.9	53.5	57.4
April	91.9	97.4	55.6	82.2	42.9	66.8	49.7	57.7
March	102.1	112.7	61.2	87.4	51.5	75.7	56.3	63.6
February	105.7	120.6	70.1	92.4	59.3	78.9	59.7	63.7
January	103.0	116.9	68.2	90.8	57.2	77.0	56.8	59.9
1965								
December	96.1	114.5	68.7	97.9	56.6	78.2	58.3	59.2
November	92.5	102.3	68.0	92.8	49.9	73.8	51.3	55.7
October	93.2	99.2	68.7	94.0	48.8	68.9	49.3	53.9
September	92.8	101.2	63.2	94.0	44.0	65.2	46.1	55.0
August	92.2	102.7	62.2	95.0	43.5	65.8	46.6	55.9
July	88.9	103.4	62.6	90.1	43.3	64.8	44.9	54.5
June	85.0	99.8	62.4	83.6	42.6	63.2	44.7	53.4
May	77.7	90.3	52.4	72.6	36.1	57.2	39.4	48.9
April	77.1	89.2	49.5	68.1	35.5	57.1	39.9	48.2
March	77.8	89.9	50.9	68.5	36.7	57.6	40.4	48.0
February	77.8	88.9	53.6	67.4	37.8	56.6	40.1	47.1
January	77.2	87.5	51.1	65.6	35.2	54.6	37.6	46.3

[1] *Description of product* Smoked ham, boneless, not fully cooked; Cooked Ham, whole (Boiled); Loin, fresh, regular trim; Side bacon, 1 lb., flat pack; New York Shoulder, fresh, shankless; Smoked cottage roll not fully cooked; Smoked Picnic, shankless, not fully cooked; Sausage, pure pork, lb. package.

SOURCE: Weekly Livestock and Meat Trade Report Canada Department of Agriculture.

TABLE IV

AVERAGE WHOLESALE PRICES (MONTHLY) TORONTO

	Pork Loin Reg. Trim	N – Y Shoulder Shankless	Bacon Rindless ½ lb. Pack	Hams Smoked Boneless	Sausage Pure Pork 1-lb. Pack
January 1965	51.1	35.2	65.6	73.2	46.3
February	53.6	37.8	67.4	75.8	47.1
March	50.9	36.7	68.5	77.0	48.0
April	49.4	35.5	68.1	76.0	48.2
May	52.4	36.0	72.6	77.2	48.9
June	62.4	42.6	83.6	87.0	53.4
July	62.6	43.3	90.0	90.4	54.5
August	62.2	43.5	95.0	90.6	55.9
September	63.2	44.0	94.0	88.6	55.0
October	68.6	48.9	94.0	86.4	53.9
November	68.0	49.9	92.8	88.8	55.7
December	68.7	56.6	97.9	101.0	59.2
Annual Average	59.4	42.5	83.5	84.8	52.2
January 1966	66.8	56.0	90.1	102.6	59.7
February	70.3	60.1	92.7	105.1	63.4
March	60.0	51.4	88.2	97.7	65.1
April	55.3	42.8	81.9	85.2	47.4
May	60.4	46.4	85.7	88.2	57.4
June	66.6	49.5	91.9	91.2	56.6
July	66.0	48.4	93.6	91.6	56.7
August	67.3	50.5	102.1	96.1	60.1
Average to Date	64.1	50.6	90.8	94.7	59.6

SOURCE: Livestock and Animal Products Statistics Dominion Bureau of Statistics.

TABLE V

AVERAGE RETAIL PRICES (MONTHLY) TORONTO

	Pork Boston Butt	Pork Chops	Sausage Pure Pork	Pork Bacon ½ lb. Pack
January 1965	40.8	73.4	57.0	96.0
February	45.8	73.4	57.6	95.8
March	45.0	76.5	58.1	96.4
April	44.1	72.5	57.0	96.4
May	45.6	70.0	57.2	97.4
June	49.3	79.4	58.8	109.8
July	51.8	87.1	62.8	124.2
August	53.7	87.2	63.5	133.6
September	53.3	89.7	65.9	137.4
October	54.5	90.9	64.3	136.0
November	58.4	99.5	63.4	130.0
December	59.7	100.2	66.4	135.4
Average 1965	50.2	83.3	61.0	115.6
January 1966	63.7	97.5	70.4	141.8
February	63.1	99.5	72.0	149.2
March	67.2	101.0	71.5	150.4
April	59.8	89.6	70.8	139.6
May	52.2	86.1	68.4	132.6
June	56.2	93.2	69.3	138.0
July	55.6	93.3	68.4	140.6
August	55.1	94.7	65.8	154.2
September	57.9	96.3	67.7	154.6
Average to date 1966	59.0	94.6	69.4	144.6

SOURCE: Livestock and Animal Products Statistics, Dominion Bureau of Statistics.

TABLE VI

NATIONAL AVERAGE RETAIL PRICES (MONTHLY)

	Pork Chops	Pork Shoulder Butt	Pork Sausage Pure Pork	Pork Bacon ½ lb. Pack	Pork Ham Boneless
January 1965	74.9	54.8	60.7	96.4	103.3
February	74.9	55.9	60.8	96.6	105.2
March	75.2	55.9	60.7	96.8	104.8
April	73.5	55.9	60.6	97.0	103.8
May	72.8	56.2	60.6	98.2	103.7
June	79.0	59.8	61.9	105.0	104.6
July	84.4	64.0	65.3	116.0	115.4
August	84.8	64.7	67.3	126.4	122.7
September	86.2	65.8	68.6	131.2	125.9
October	86.5	66.3	68.5	129.6	124.9
November	91.5	69.0	68.5	128.2	123.2
December	93.4	73.5	70.0	127.4	128.4
Annual Average	81.4	61.8	64.5	112.4	113.8
January 1966	94.9	78.8	73.8	134.4	139.6
February	97.1	78.6	75.6	139.6	144.6
March	97.1	81.3	77.5	139.6	147.1
April	87.3	72.8	76.5	127.2	141.4
May	83.4	65.9	74.0	125.2	124.6
June	89.4	68.2	74.7	128.6	137.1
July	89.9	70.3	74.4	131.8	134.5
August	90.7	70.2	74.1	138.0	137.3
September	91.8	73.0	75.0	142.8	139.8
Average to Date	91.3	73.2	75.1	134.4	138.4

SOURCE: Prices and Price Indexes Dominion Bureau of Statistics.

SCHEDULE 236–1

ANATOMY OF A CHOICE STEER

(1) MARKETING (Farm to Packing Plant)

	"Direct" Producers' Costs	*Packers' Transportation Costs*
(1) Through a Public Stockyard	Trucking to Stockyard Commission $1.60 per head (approx.) Yardage $1.00 per head (approx.)	Moving steers from stockyard to Plant
(2) *Direct to Plants*	Trucking to Plant	Nil

(2) PROCESSING (From delivery of Steer at Packing Plant to delivery of beef products to buyer (retailer, wholesaler or on export)

Expenses involved in processing (and buying)

1. Buying
2. Killing
3. Chilling
4. Cutting (may include defatting and boning in varying degrees)
5. Wrapping
6. Storage (as may be required)
7. Selling
8. Delivery

Killing Credits (from 1000 steer; 570 lb. carcass) —Revenue producing by-products; other than products derived from the carcass

Hide	Tongue	Lips
Tail	Brains	Lungs
Heart	Cheek meat	Spleen
Liver	Head meat	Head Bones
Kidneys	Casings	Fat
Tripe	Blood	Glands

Breakdown into major wholesale cuts of a Choice steer carcass in a packing plant

The average yield from live weight is approximately 57 percent i.e., the carcass from a steer of 1,000 lbs. live weight would weigh about 570 lbs.

Approximate yield of fresh wholesale cuts from a carcass (cold weight basis)

The percentages will vary somewhat depending upon the type of carcass and upon the method of cutting.

Hind Quarter	%	Weight (lbs.) from 570 lb. carcass
Short hip sirloin (including tip)	24.5	139.6
Steak piece	8.8	50.2
Short loin	8.8	50.2
Flank	5.0	28.5
Back steak	0.4	2.3
Trim	0.3	1.7
Cutting shrink	0.2	....
	48.0	272.5
Front Quarter		
7-bone rib	10.0	57.0
Chuck	25.8	147.1
Plate	8.4	47.9
Brisket Point	3.5	19.9
Shank	3.3	18.8
Trim	0.8	4.6
Cutting shrink	0.2	....
	52.0	295.3
Carcass	100.0	567.8

FRONT (148 lbs.)	Approx. Weight (lbs.)	Approx. % of Front	Approx. % of Carcass
Rib roasts (bone-in)	18.50	12.5	6.5
Braising ribs	8.75	5.9	3.1
Blade roast (blade bone removed)	14.75	10.0	5.2
Short rib roast (bone-in)	12.75	8.7	4.5
Cross rib roast (bone-in)	10.25	6.9	3.6
Boneless shoulder and neck	13.50	9.1	4.7
Boneless Brisket plate	9.00	6.1	3.2
Brisket point (bone-in)	11.25	7.6	3.9
Boneless shank	5.50	3.7	1.9
Sub total	104.25	70.5	36.6
Trimmings	4.50	3.0	1.6
Fat	18.00	12.2	6.3
Bones	19.00	12.8	6.7
Cutting shrink	2.25	1.5	0.8
Sub total	43.75	29.5	15.4
Total	148.00	100.0	52.0

Fat, bones and cutting shrink

The approximate percentage of the above is:

	Hind	Front	Carcass
Fat	13.7	12.2	13.0
Bones	14.4	12.8	13.6
Cutting shrink	0.7	1.5	1.1
	28.8	26.5	27.7

APPROXIMATE YIELD OF RETAIL CUTS FROM A 570 lb. CHOICE STEER CARCASS

The yield of individual cuts will vary considerably, due to:

(1) A difference in cutting methods;

(2) A difference in the amount of surface fat removed, that is, the degree to which fat is trimmed off;

(3) A difference in the amount of trimming on steaks; for example—the "tails" may be either removed from Porterhouse, T-bone and Wing Steaks, or left on in varying degrees (approx. 2–4″);

(4) A difference in the amount of bone removed; for example—in the standing prime rib "bone-in" the ribs may be "long cut" (about 9″) or "short cut" (5 to 7″).

(5) The number of cuts offered in boneless form—Boneless Rump Roast; Boneless Rolled Rib; Boneless Brisket, etc.

Weight of Carcass, Hind and Front

		Approx. %	Approximate Weight Two	One
Carcass 570 lbs.	Hind—	48	274	137
	Front—	52	296	148
			570	285

Hind (137 lbs.)	Approximate Weight lbs.	Approx. % of Hind	Approx. % of Carcass
Round Steak	18.25	13.3	6.4
Rump Roasts	12.25	8.9	4.3
Boneless Sirloin Tip	7.25	5.3	2.6
Cube Steaks	3.00	2.2	1.1
Boneless Shank	11.00	8.0	3.9
Sirloin Steaks	13.25	9.7	4.6
T-Bone and Porterhouse Steaks	11.25	8.3	4.0
Wing Steaks	5.25	3.8	1.8
Flank Steak	1.25	0.9	.4
Boneless Flank	7.50	5.5	2.6
Sub-Total	90.25	65.9	31.7
Trimmings	7.25	5.3	2.5
Fat	18.75	13.7	6.6
Bones	19.75	14.4	6.9
Cutting Shrink	1.00	0.7	.3
Sub-Total	46.75	34.1	16.3
Total	137.00	100.0	48.0

AVAILABLE PRICE DATA RE CHOICE STEERS, BEEF AND BEEF PRODUCTS

(A) Source: C.D.A.

(1) Choice steers live basis
(Weekly, monthly, annual).

(2) Weekly Average Wholesale Dressed Meat Prices (Maritimes Centres, Montreal, Toronto area, Winnipeg, Edmonton and Vancouver).
Choice beef carcasses.

(B) Source: D.B.S.

(1) Monthly Average Wholesale Prices at specified cities
"N I L"

(2) Monthly Average Retail Prices at specified cities (Halifax, Saint John, Montreal, Toronto, Winnipeg, Regina, Edmonton and Vancouver).
Sirloin steak
Round steak
Prime rib roast (rolled)
Blade roast
Stewing beef, boneless
Hamburg.

(3) National Monthly Average retail prices
Sirloin steak
Round steak
Prime rib roast
Blade roast
Stewing beef
Hamburg
Liver, sliced.

TABLE I

CATTLE MARKETINGS

Canada—Weekly Average Inspected Slaughterings

	1961	1962	1963	1964	1965	1966
			No. of head			
January	37,940	37,804	39,554	44,588	52,688	55,674
February	35,412	36,785	39,689	42,930	47,444	49,974
March	33,703	37,127	38,582	39,623	45,904	50,467
April	38,213	36,062	38,210	42,264	45,210	48,957
May	37,287	38,216	40,966	42,643	48,228	51,428
June	40,539	38,861	40,192	45,817	49,683	50,871
July	42,305	39,536	39,224	44,349	53,156	50,701
August	42,236	40,790	40,719	48,123	54,995	50,001
September	43,870	41,026	44,179	51,091	59,180	51,945
October	43,690	41,890	42,889	50,911	61,332	60,734
November	43,623	45,106	48,194	53,288	64,465	
December	33,631	35,647	38,832	52,644	50,129	
Year	39,259	39,002	40,897	46,580	52,585	
Total Slaughter	2,041,473	2,028,159	2,126,716	2,422,260	2,734,514	

U.S.A.—Weekly Average Inspected Slaughterings

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	1961	1962	1963	1964	1965	1966
January	408.0	445.2	448.8	503.2	541.5	576.2
February	358.8	366.8	389.8	427.5	479.8	509.2
March	325.4	329.8	338.8	375.4	445.2	446.4
April	375.5	380.5	431.8	511.2	505.2	525.8
May	438.5	441.5	468.8	517.5	510.8	562.2
June	357.0	359.6	350.4	441.4	443.8	479.4
July	407.0	441.2	459.5	540.5	559.5	559.0
August	450.8	467.5	475.0	531.2	584.2	624.2
September	342.4	330.8	365.8	439.8	481.2	482.4
October	454.2	474.5	523.0	589.8	597.5	
November	420.8	421.5	448.2	527.8	583.5	
December	317.8	312.4	361.6	450.8	462.8	
Year	384.0	391.1	416.6	483.3	511.8	
Total Slaughter	19,968.0	20,339.0	21,662.0	25,133.0	26,614.0	

TABLE II

PRICES FOR CHOICE STEERS

TORONTO—MONTHLY AVERAGE CHOICE STEERS

	1961	1962	1963	1964	1965	1966
	$	$	$	$	$	$
January	24.76	26.62	26.02	22.91	23.56	27.74
February	24.32	25.18	24.26	23.54	23.60	28.72
March	24.03	24.86	23.40	23.85	24.00	28.32
April	23.43	25.25	23.80	24.25	24.00	27.37
May	23.23	25.57	24.25	24.25	24.91	26.85
June	22.47	26.38	24.78	24.25	26.86	26.08
July	22.22	27.84	26.89	24.78	26.84	25.64
August	22.65	28.61	27.00	24.25	26.28	25.56
September	24.08	29.36	26.60	24.26	25.67	27.24
October	24.50	29.50	24.81	23.70	25.50	
November	25.49	29.46	24.50	23.26	26.06	
December	26.78	28.27	23.74	23.50	26.79	
Year	24.20	27.20	25.05	24.05	25.20	

OMAHA—MONTHLY AVERAGE CHOICE STEERS

	1961	1962	1963	1964	1965	1966
	$	$	$	$	$	$
January	26.74	25.76	26.49	22.20	22.98	25.91
February	26.15	25.95	24.47	21.36	22.53	27.16
March	25.52	26.36	22.88	21.38	23.17	28.25
April	24.87	26.81	23.10	20.88	24.38	26.94
May	23.22	25.50	22.27	20.28	26.00	25.94
June	22.42	25.07	22.52	21.25	26.69	25.25
July	22.34	25.68	24.57	22.69	26.05	25.27
August	23.87	27.41	24.40	24.73	26.28	25.76
September	23.78	28.83	23.98	24.75	26.19	25.75
October	23.96	28.46	23.74	23.66	25.33	
November	24.83	29.12	22.92	23.45	24.93	
December	25.51	28.12	21.64	22.79	25.38	
Year	24.43	26.92	23.58	22.41	24.99	

TABLE III

AVERAGE MONTHLY PRICES FOR LIVE CHOICE STEERS AT TORONTO AND FOR CHOICE STEER CARCASSES AT TORONTO

		Toronto Live Choice Steers	Toronto Wholesale price Choice Steer Carcasses
		—$ per cwt.—	—cents per lb.—
1965	January	23.50	41.1[1]
	February	23.60	41.8
	March	24.00	42.2
	April	24.00	42.3
	May	24.91	43.3
	June	26.86	45.9
	July	26.84	46.0
	August	26.28	45.4
	September	25.67	44.6
	October	25.50	44.2
	November	26.06	45.2
	December	26.79	46.4
Annual Average		25.20[4]	44.0[2]
1966	January	27.74	48.4
	February	28.72	49.0
	March	28.32	48.0
	April	27.37	46.5
	May	26.85	45.9
	June	26.08	45.3
	July	25.64	45.3
	August	25.56	45.6
	September	27.24	48.4
9 Month Average		26.84[4]	46.9[3]

[1]Simple average of weekly figures
[2]Simple average of the 12 monthly figures
[3]Simple average of the 8 monthly figures
[4]Weighted average

SOURCE: Livestock and Meat Trade Report Canada Department of Agriculture.

TABLE IV

NATIONAL AVERAGE RETAIL PRICES (MONTHLY)

	Beef Sirloin Steak	Beef Round Steak	Beef Prime Rib	Beef Blade Roast	Beef Stewing Beef	Beef Hamburg	Beef Liver
1965							
January	100.1	88.3	93.6	59.7	68.0	48.3	55.0
February	99.8	90.2	93.3	61.7	67.8	48.4	56.1
March	100.4	91.2	93.6	61.5	68.3	48.1	56.1
April	99.6	90.0	93.6	60.7	68.0	48.7	56.5
May	101.8	92.7	93.4	61.4	68.2	48.7	56.6
June	107.9	95.2	96.6	63.7	69.4	49.4	56.4
July	113.6	98.2	99.8	65.4	70.4	50.3	57.8
August	115.5	97.3	99.9	63.8	70.9	50.3	56.3
September	113.4	98.6	99.5	65.7	70.7	50.5	58.2
October	108.1	94.2	98.2	63.1	70.6	50.8	56.7
November	109.1	95.3	98.4	63.9	70.7	50.2	57.2
December	110.3	97.7	100.5	66.6	72.7	50.9	57.8
Annual Average	106.6	94.1	96.7	63.1	69.6	49.6	56.7
1966							
January	113.9	101.2	102.3	67.3	72.7	51.8	56.8
February	117.4	105.3	105.3	70.9	75.6	53.8	58.4
March	115.5	103.7	106.6	71.4	76.7	54.8	60.0
April	115.5	103.0	105.7	70.7	76.5	56.0	63.1
May	115.3	102.0	104.7	70.3	75.6	56.1	64.3
June	114.6	100.1	104.1	69.7	75.8	56.5	65.4
July	116.8	101.3	104.4	71.7	75.7	55.8	66.5
August	122.2	103.0	105.6	71.2	77.2	56.4	66.3
September	120.3	103.4	105.5	71.9	77.3	57.1	65.0
Average to Date	116.8	102.6	104.9	70.6	75.9	55.4	62.9

SOURCE: Prices and Price Indexes, Dominion Bureau of Statistics

TABLE V

AVERAGE RETAIL PRICES (MONTHLY) TORONTO

	Beef Sirloin Steak	Beef Round Steak	Beef Prime Rib Round	Beef Blade Roast	Boneless Stewing Beef	Beef Hamburg
1965						
January	92.4	87.8	99.3	58.8	66.9	47.1
February	95.6	94.7	98.4	60.3	65.1	48.5
March	94.0	95.0	101.5	60.1	66.9	46.4
April	95.6	90.3	101.3	62.9	65.7	48.0
May	94.9	94.5	98.3	60.3	67.3	46.9
June	109.3	100.3	101.5	64.9	68.5	47.9
July	111.7	105.4	107.7	66.6	68.8	48.9
August	115.8	99.4	106.5	64.8	68.9	48.5
September	112.6	107.2	106.0	65.9	68.5	49.2
October	112.9	105.6	107.7	67.2	68.9	48.7
November	100.6	96.3	106.5	66.6	68.8	47.9
December	107.1	103.2	110.2	69.0	72.0	49.3
Average 1965	103.5	98.3	103.7	64.0	68.0	48.1
1966						
January	110.8	109.2	113.1	68.6	72.8	49.7
February	114.1	111.9	112.6	72.9	75.6	54.3
March	115.1	112.9	115.9	74.2	77.5	55.5
April	111.0	107.4	115.0	71.0	76.1	57.3
May	105.3	105.7	112.0	74.5	75.1	57.7
June	112.6	108.5	108.1	70.5	76.5	57.1
July	113.4	106.8	110.1	71.9	75.1	54.9
August	123.1	107.9	110.8	72.4	76.1	57.6
September	119.2	110.7	111.3	72.4	76.7	57.6
Average to date 1966	113.8	109.0	112.1	72.0	75.7	55.7

SOURCE: Livestock and Animal Products Statistics, Dominion Bureau of Statistics

Schedule 241-1

INFORMATION RE COSTS OF CIGARETTES

1 pound of redried tobacco yields approximately 400 cigarettes (1)
Retail price of 400 cigarettes at $0.51/pkg of 25 = $8.16 (2)

			Per Cent of above retail price
Manufacturer's approximate net selling price, exclusive of duty and taxes (3)		$ 2.20	27.0
Duty and Taxes:			
Excise duty on 400 cigarettes at $4.00/1000 cigarettes (4)	$1.60		
11% federal sales tax, applied on manufacturer's price, excise duty paid (4)	.42		
Excise tax on 400 cigarettes, at 2.5 cents/5 cigarettes (4)	2.00		
Ontario provincial tax, 1/10 cent per cigarette (5)	.40		
Total duty and taxes	$4.42	4.42	54.1
Difference: Retail Price of $8.16 less above charges (2)		1.54	18.9
Retail Price		$ 8.16	100.0

(1) Calculated from DBS data on stemmed, redried tobacco actually used in manufacturing cigarettes and the production of cigarettes during the first six months of 1966.

(2) The retail price of cigarettes purchased by the carton, is less than the amount shown. Current carton prices in Ottawa, vary from $3.59 to $3.79 for 200 cigarettes, or $7.18 to $7.58 for 400 cigarettes. At these lower prices, the difference between the retail price and the total of the other charges would be reduced and the percentage figures altered accordingly.

(3) Source: Discussions with officials of the Dept. of National Revenue and a cigarette manufacturer.

(4) Source: Department of National Revenue.

(5) Source: Ontario Treasury Department, Ottawa Office.

The average price paid to growers in 1965 for flue-cured tobacco was 64.58 cents per pound, green weight. On the basis of DBS conversion rate of 100 lbs. of green flue-cured tobacco equalling 90 lbs. of redried tobacco, growers averaged 71.76 cents per pound of flue-cured tobacco on a redried basis in 1965. This represents 32.3 per cent of the approximate manufacturer's selling price for 400 cigarettes, exclusive of duty and taxes, and 8.8 per cent of the retail price of $8.16.

ESTIMATED PERCENT SHRINKAGE AT RETAIL

FRUITS AND VEGETABLES

Beets, carrots, onions, potatoes, turnips, etc.	1% or less
Lettuce, tomatoes	5 — 8%
Peaches, pears, cherries, berries, etc.	10 — 12%
Remainder	5% or less

No actual records are available but the above represent estimates based on the opinions of those in the department that are most familiar with produce at the retail level. These are averages only; at times, losses on peaches, etc. can run over fifty percent.

First Session—Twenty-seventh Parliament

1966

PROCEEDINGS OF

THE SPECIAL JOINT COMMITTEE OF THE SENATE

AND HOUSE OF COMMONS ON

CONSUMER CREDIT

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THURSDAY, NOVEMBER 24, 1966

JOINT CHAIRMEN

The Honourable Senator David A. Croll

and

Mr. Ron Basford, M.P.

WITNESSES:

Economic Council of Canada: Dr. John J. Deutsch, Chairman; Dr. John Dawson, Staff Economist.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1966

25229—1

MEMBERS OF THE SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON CONSUMER CREDIT

(PRICES)

For the Senate

Hon. David A. Croll, Chairman

the Honourable Senators

Carter,	Hollett,	O'Leary (*Antigonish-Guysborough*),
Cook,	Inman,	Thorvaldson,
Croll,	McDonald (*Moosomin*),	Urquhart,
Hastings,	McGrand,	Vaillancourt—(12).

For the House of Commons

Mr. Ron Basford, Joint Chairman

Members of the House of Commons

Allmand,	Duquet,	McCutcheon,
Andras,	Horner (*Acadia*),	McLelland,
Basford,	Irvine,	Olson,
Cashin,	Lablanc (*Laurier*),	Otto,
Choquette,	Lefebvre,	Ryan,
Clancy,	MacInnis,	Scott (*Danforth*),
Code,	Mandziuk,	Smith,
Crossman,	Matte,	Whelan—(24).

36 members

Quorum 7

SUPPLEMENTARY ORDERS OF REFERENCE

Extract from the Votes and Proceedings of the House of Commons, September 9, 1966:—

"Mr. Sharp, seconded by Miss LaMarsh, moved,—That the Joint Committee of the Senate and House of Commons appointed by this House on March 15, 1966, to enquire into and report upon the problems of consumer credit, be instructed to also enquire into and report upon the trends in the cost of living in Canada and factors which may have contributed to changes in the cost of living in Canada in recent months;

And that a Message be sent to the Senate to acquaint Their Honours thereof and to request the concurrence of that House thereto.

And the question being proposed;

Mr. Pickersgill, seconded by Mr. McIlraith, moved in amendment thereto,—That the motion be amended by striking out the words "by this House on March 15, 1966" where they appear in the second line thereof and by inserting in the motion as the second paragraph the following:

"That the Committee have leave to sit notwithstanding any adjournment of this House;".

And the question being put on the said amendment, it was agreed to.

After debate on the main motion as amended, it was agreed to."

Extract from the Votes and Proceedings of the House of Commons, October 7, 1966:—

By unanimous consent, Mr. Basford, seconded by Mr. Allmand, moved,—That the First and Second Reports of the Special Joint Committee on Consumer Credit and Cost of Living, presented to the House on Friday, April 1 and Thursday, October 6, 1966, be concurred in.

After debate thereon, the question being put on the said motion, it was agreed to.

Accordingly, the said Reports were concurred in and are as follows:

First Report

Your Committee recommends that seven (7) of its Members constitute a quorum, provided that both Houses are represented.

Second Report

Your Committee recommends that the House of Commons section of the said Committee be granted leave to sit while the House is sitting.

LÉON-J. RAYMOND,
Clerk of the House of Commons.

Extract from the Minutes of the Proceedings of the Senate, September 13, 1966:—

"The Honourable Senator Connolly, P.C., moved, seconded by the Honourable Senator Hugessen:

That the Senate do agree that the Joint Committee of the Senate and House of Commons appointed to enquire into and report upon the problems of consumer credit, be instructed also to enquire into and report

upon the trends in the cost of living in Canada and factors which may have contributed to changes in the cost of living in Canada in recent months; and

That a message be sent to the House of Commons to acquaint that House accordingly.

After debate, and—

The question being put on the motion, it was—

Resolved in the affirmative."

Extract from the Minutes of the Proceedings of the Senate, Tuesday, November 22, 1966:—

The Honourable Senator Connolly, P.C., moved, seconded by the Honourable Senator Beaubien (*Provencher*):

That the Third Annual Review of the Economic Council of Canada relating to Prices, Productivity and Employment, dated November 1966, which was tabled in the Senate today, be referred to the Special Joint Committee of the Senate and House of Commons on Consumer Credit and Cost of Living.

The question being put on the motion, it was—

Resolved in the affirmative.

J. F. MacNEILL,
Clerk of the Senate.

MINUTES OF PROCEEDINGS

THURSDAY, November 24, 1966

Pursuant to adjournment and notice the Special Joint Committee on Consumer Credit (Prices) met this day at 9.30 a.m.

Present: For the Senate: The Hon. Senators Carter, Cook, Hollett, Inman, McDonald (*Moosomin*), McGrand and O'Leary (*Antigonish-Guysborough*).—7.

For the House of Commons: Messrs. Basford (*Joint Chairman*), MacInnis, McCutcheon, McLelland, Otto, Scott (*Danforth*) and Whelan.—7.

In attendance: Dr. R. Warren James, Special Assistant; Mr. Marcel Joyal, Q.C., Associate Counsel; Mr. Jacques L'Heureux, C.A., Accountant; Mr. John J. Urie, Q.C., Counsel.
The following were heard:

Economic Council of Canada:

Dr. John J. Deutsch, Chairman.

Dr. John Dawson, Staff Economist.

At 12.30 p.m. the Committee adjourned.

At 3.00 p.m. the Committee resumed.

Present: For the Senate: The Hon. Senators Carter, Cook, Inman, McGrand and O'Leary (*Antigonish-Guysborough*).—5.

For the House of Commons: Messrs. Allmand, Basford (*Joint Chairman*), Choquette, Leblanc (*Laurier*), MacInnis, McCutcheon, McLelland, Scott (*Danforth*) and Whelan.—9.

In attendance: Dr. R. Warren James, Special Assistant; Mr. Jacques L'Heureux, C.A., Accountant; Mr. John J. Urie, Q.C., Counsel.

Dr. Deutsch was further heard.

At 5.15 p.m. the Committee adjourned until Tuesday next, November 29, at 9.30 a.m.

Attest.

John A. Hinds,
Assistant Chief,
Senate Committees Branch.

THE SENATE

SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON CONSUMER CREDIT

EVIDENCE

OTTAWA, Thursday, November 24, 1966.

The Special Joint Committee of the Senate and House of Commons on Consumer Credit met this day at 9.30 a.m.

Mr. RON BASFORD, M.P., Co-Chairman, in the Chair.

Co-Chairman Mr. BASFORD: Honourable senators and Members will please come to order. Before calling on our witness this morning, I would like to make a few brief remarks resulting from a meeting of the Steering Committee held on Tuesday afternoon.

Some time ago I, as one of the Chairmen of the committee, made an appeal to Canadian housewives to send in to your committee specific evidence of price abuses. Hundreds of these letters explaining consumer problems have been received by the committee and by our research staff, and those letters have been extremely helpful in outlining problems that consumers are experiencing today. And I might say to the ladies of Canada: Keep them coming, because they are very useful.

We are also aware that a large number of consumer protest groups have sprung up across the country in the last month or so. Some of these groups have asked to appear before this committee. When first outlining the work of the committee in late September, the Steering Committee felt that first priority had to be given to obtaining detailed financial and statistical information from the principal distribution levels of the food industry. Hearings with retailers, wholesalers, food processors, meat packers, economists and representative national organizations have completely filled up the committee's schedule until Christmas.

The schedule of hearings after Christmas has not yet been settled. On Tuesday last the Steering Committee met and reaffirmed that it was necessary for the committee to hear all points of view and that particularly plans should be made to obtain the views of consumer protest groups, either by written submissions or by appearance before the committee. Those wishing, therefore, to submit written submissions or appear before the committee should write to us—the Prices Committee, Parliament Buildings, Ottawa—in order that our program for after Christmas can be arranged and settled.

I do not know whether any member of the Steering Committee wishes to comment on that, but that is a reflection of the view arrived at last Tuesday with regard to the requests we had had from a number of protest groups wanting to be heard.

Mr. Scott (*Danforth*): Mr. Chairman, I think what you have said pretty well accurately reflects our views.

The thing we want to emphasize to the public is that we are very interested in hearing all these groups who represent consumers. Up to now we have only been able to hear the large corporations and chains, and at some later stage we want to get into the whole area of the consumer. I hope the press will reassure

them that they are not being left out; that it is only because our schedule was arranged months ago that we could not accommodate them at this time; and that we do want their views.

Co-Chairman Mr. BASFORD: Members of the committee, we have before us this morning, and this afternoon if need be, the very distinguished chairman of the Economic Council of Canada, Dr. John Deutsch. I should like to apologize to Dr. Deutsch for the absence this morning of my Co-Chairman, Senator Croll, who unavoidably has to be in Toronto.

With Dr. Deutsch is Mr. A. J. R. Smith, a prominent member of the Council, and Mr. D. L. McQueen, a senior staff member of the Council, and Mr. Fred Belaire, special assistant to the chairman.

Dr. Deutsch wishes to make a few brief introductory remarks. His official statement, of course, is contained in the Third Annual Review of the Economic Council of Canada, After he has done that he will be open to questions from the committee. Perhaps I might explain that I have instructed Dr. Deutsch that he is more than welcome to be seated, but he tells me that he is an old school teacher and he prefers to stand.

Dr. John J. Deutsch, Chairman, Economic Council of Canada: Mr. Chairman and members of the committee, I am very pleased to come and participate in your studies today, and to make myself available to you for questioning with respect to the Council's review which has just been published. I thought you might be interested in a very brief description of the background of this.

As you know, the Economic Council was set up by an act of Parliament in 1963, and in that act the Council's terms of reference are set forth. Just to remind you they are, very briefly, as follows:

> It shall be the duty of the Council to advise and recommend to the Minister how Canada can achieve the highest possible levels of employment and efficient production in order that the country may enjoy a high and consistent rate of economic growth and that all Canadians may share in rising living standards, and in particular it shall be the duty of the Council—

And then follows a long list of special matters which spell out these very general terms of reference in more detail. So, it can be seen that our terms of reference are extremely broad in relation to the economic and social problems of Canada, and the achievement of our economic and social goals.

Furthermore, the Council is instructed by the legislation in the following words:

> The Council shall, annually, prepare and cause to be published a review of medium and long term economic prospects and problems.
>
> The Council may cause to be published such studies and reports prepared for the use of the Council as it sees fit.

This is the basis upon which we have prepared our annual reviews. It is our duty to produce them, and this year we have issued our Third Annual Review. The present review goes further than being merely a third annual review because in it we include also the report of the Council on a reference that was made to it by the government. The legislation establishing the Council has provision that the government may refer matters to the council for study and report. It is under this authority that the government requested a little over a year ago—perhaps it is a year and a half ago now—to make the following study:

> 1. To study factors affecting price determination and inter-relation between movements in prices and costs and levels of productivity and incomes.

2. To report on their relationship to sustained economic growth and to the achievement of high levels of employment and trade and rising standards of living.

3. To review the policies and experiences of other countries in this field and their relevance for Canada.

Those were the terms of reference, and the Prime Minister, in talking about them, said:

I believe it will be useful to launch a broad examination into these matters.

So, the Council was requested to undertake a broad examination into these matters.

This means that we are to consider the basic policy problems, but we were not requested to go into specific prices, and things of that kind. This is not what was intended by the terms of reference. The Council was requested to make a broad examination of these matters, and that is what we have done.

We have included the results of our work and studies on this reference in this Third Annual Review, in chapters 3, 4 and 5. In chapter 5 we have set down our conclusions based on this analysis, so that that chapter is the chapter giving our conclusions on that study.

This combination of the annual review and the report on the special reference is not gratuitous because in many ways, and in any case, in our studies we would have been concerned this year with this problem of reconciling the problems of maintaining reasonable price stability, high levels of employment, a rising standard of living, and productivity. We would, in any case, given a study of the economy, been involved in examining this matter, so it is, in a real sense, a part of our review as to how to achieve our economic goals in this country. The combination of the review and the report is entirely reasonable and logical at this time.

Mr. Chairman, I do not want to go into details because the results are all in the report, but I thought you might want to have something of the background of how it came into being, and the purposes we had in mind in bringing it out at this time.

Co-Chairman Mr. BASFORD: Thank you very much, Dr. Deutsch. The first member of the committee I have on my list is Senator Carter.

Senator CARTER: Dr. Deutsch, I wonder if you would bring us up to date on the present state of the economy. Is it still expanding, though less sharply than before, has it levelled off, or has it reached the point where it could develop into a down-turn? I ask this question because I think there is some division among economists as to which of these situations prevails at the present time.

Dr. DEUTSCH: I am not at all surprised that there is a division amongst economists, because at the present time it is not easy to tell just what is happening. There are signs pointing in one direction, and there are other signs pointing in another direction, and this applies to both Canada and the United States at the present time. But, the available information indicates that the economy has tended to flatten out since the late spring. The index of industrial production flattened out after April. There was a slight rise again in September, I believe it was—there was a slight bump in September—and we do not know what has happened since. I think it is proper to say that information indicates that there has been a flattening out since the late spring.

There are also indications that there is a tendency for construction and investment to flatten out. The preliminary signs that are available—and they are not conclusive yet—indicate a continued flattening out in investment over the next year, but these are just preliminary signs. I would not want to have too much emphasis put on this.

Now, what does this mean? Does this mean that we will have a continued flattening or a further down turn, or a revival? I do not think it is possible to give answers yet to this question. As far as Canada is concerned much will depend upon the course of events in the United States. We are, of course, tremendously influenced by the trend of events down there. The studies and assessments made in the United States are not fully available, but they are going to be made available during the coming month. There is the President's report to Congress, the report of the Council of Economic Advisers, and there is the President's budget message. In those reports they try to assess the American situation. But, that information is not yet available, and it is tremendously important for our affairs.

Also, the course of the Viet Nam war is going to exert a considerable influence. It did in the past year and it can again in the future.

These are the uncertainties in the picture, but, to put it briefly, there has been a flattening out. There are some preliminary signs that the flattening-out will continue. Whether it will result in a down-trend or an actual recessionary downturn, we do not know, but it indicates we have to be very careful at this point, and very watchful. The timing problem is going to be critically important.

I think I said the other day that this is probably a watch and wait kind of business—the keeping of a careful eye out, and making timely changes in policy when the movement seems to be fairly clear.

Senator CARTER: With respect to a down-turn, just what is a down-turn? As I understand it, the economy has to keep expanding at the rate of about 2 per cent or 3 per cent per year in order to take care of the increase in our labour force.

Dr. DEUTSCH: Yes.

Senator CARTER: Is it a down-turn when it falls below that figure of 2 or 3 per cent?

Dr. DEUTSCH: Yes, I think, in our terms, what we would like to see is the economy growing and expanding at what economists have come to call its potential growth path. In other words, if we are going to have full employment, and a full use of our capacities, we should grow at a certain rate, and that is determined by the number of people coming forward into the labour force for whom jobs must be found, and the extent to which we extend our capacities through new investments. The economy must keep growing sufficiently to provide opportunities for the people who want jobs, and so that we can use our available potential capacity. That requires the economy to grow at a certain rate.

In normal times when you are not catching up slack this would mean a rate of growth of about 5 per cent, in real terms. We have gone faster than that because we had slack before we started. If the economy drops away from that rate of growth then you tend to get rising unemployment. If that takes place then there is something of a recession.

Senator CARTER: So, it is fair to say that we must maintain a growth of at least 3 per cent in order to keep pace with the growth in the labour force?

Dr. DEUTSCH: We have to keep expanding. There are two factors in total output. First of all, our economy must expand at the rate of pretty close to 3 per cent just to take care of the increase in employment. Then of course there is also the increase in productivity resulting from new capital investment, and so on. In our country the long-run productivity increase of the economy has been about 2 per cent, and the two together are 5 per cent.

Senator CARTER: To increase our standard of living?

Dr. DEUTSCH: The extra two per cent increases it.

Senator CARTER: What about increases in prices.

Dr. DEUTSCH: I am talking here in real terms, in terms of physical volume alone. In actual income there is a price factor which gets into it, and I did not talk about that.

Senator CARTER: A 5 per cent increase in real terms.

Dr. DEUTSCH: Yes; in physical volume. I should have emphasized that. Now, if prices are rising that will be a different factor.

Senator CARTER: If I interpreted your report correctly, and correct me if I did not, as I understand it the big factor in dealing with inflation is to keep an eye on total demand.

Dr. DEUTSCH: Yes, this is the most important big factor, not the only one, but the big one.

Senator CARTER: One of the main factors.

Dr. DEUTSCH: That is right.

Senator CARTER: And in dealing with this total demand you have two main instruments, fiscal policy and monetary policy?

Dr. DEUTSCH: That is right.

Senator CARTER: And in the application of these instruments timing is very important?

Dr. DEUTSCH: Very important.

Senator CARTER: Could you tell us about your assessment of the timing of the application of the instruments that have been made say in recent months and if this timing should continue, how it would apply to the future? You have stated that we are not certain whether we are on the verge of a downturn or not, and that we apply measures and policies on the assumption that the economy has to be restrained. Now, in your opinion, should there be any change in that, or is it too soon to make any predictions?

Dr. DEUTSCH: This problem of timing always poses a very serious difficulty for the authorities, because, first of all, if these big demand policies, which are very important, are wrong there is not much you can do; there is no gimmick to get you out of trouble if your basic policies are wrong. They will not give you the best performance by themselves. They have to be reasonably right, and if they are not reasonably right there is no gimmick or magic cure to solve your problems. That is the experience of our country as well as all other countries. The timing of the process is also very important and the combination of them. Timing presents very real difficulties, because there is a lag in these things. When you change your policies they don't bite right away, there is a lag of six months to a year and a half before they grab, before they do what you want them to do. You have to guess ahead a considerable distance which makes it even more difficult; you must have some kind of view of where you are going in time to make your changes, because the changes will not take effect until six months or a year and a half, or somewhere between the two.

Senator CARTER: Thank you.

Mr. ALLMAND: I have a supplementary. How would the federal system aggravate this? If you have to act quickly to counteract certain demand pressures, with a federal government, provincial governments and municipal governments, involved, how can the federal government cope with this quickly?

Dr. DEUTSCH: I will come to that too. I will keep your supplementary question before me, because it is a very relevant point.

The problem of timing is extremely important and very difficult, difficult because our information is not good enough in many cases, and it is not sufficiently up to date. There is a need for better information and more analysis. That is why I put so much emphasis on it, because the existing information is not

good enough to do as well as one would like to do in this field. Furthermore, there is a time lag in the information. In the past we usually saw where we were afterwards, but did not know where we were at the time, and this is a very serious problem. That is why we put so much emphasis in our report about the improvement of this aspect of things.

Also, because of these difficulties and because of lack of information and so on, the Economic Council has taken the view that we should not be too much concerned with very short term fluctuations. You probably cannot guess them, anyway, because of lack of information, and if we did try to guess we would make many mistakes and matters would become worse. Perhaps, therefore, we should keep our eye on the longer run and try to get a better performance for the longer run, and not worry too much about very short run changes.

If the downturn does not become persistent, as soon as you are clear on this you change your posture, release your restraints. On the other hand, if you wait too late there is not very much you can do about it, and once you have missed your timing in this short term cycle it is extremely difficult to do something that is very effective. That is one of the frustrations in this business. You can make all kinds of moves if you like, but they are not going to be very effective. So that this timing question is extremely important and very difficult and until we get our information much improved and our analysis improved this difficulty will continue.

Let us suppose that we make a decision on the assumption that we are going down but it turns out that we are not going down at all, but going up, then by taking expansionary measures we are going to be in real trouble and have a bout of inflation. So it is important not to jump too quickly, otherwise you will create for yourself very serious troubles if you guess wrong.

With regard to the supplementary question which was asked earlier, in a federal system, such as ours, of course, government measures are dispersed between the central government and ten other governments. In a central state you have only one government to deal with, but in our country some of the main levers, as we call them, are a divided responsibility. Certainly monetary policy is a federal responsibility, which the federal government can deal with and take initiatives about. But in fiscal policy the role is divided. Until not long ago the federal government was quite predominant in fiscal policy because it had a fairly large influence in that whole field. In recent years, however, this role has become somewhat smaller, and the role of the provinces has been increasing, so the amount of the leverage in the federal government is not as great as it was. However, it is still considerable, and let us not underrate this; it is not as powerful as at one time, but it is still very considerable, and this is not an unusable instrument; however, it is no longer so complete or predominant an influence as it used to be.

We have kept this very much in mind in our recommendations. We are suggesting that there be a formal and orderly approach to this problem regularly once a year before governments come around to making their budgets and key that to next year's policy, and that there be a very thorough discussion of the economic situation between the federal government and the provinces based on studies that are specifically made. We are suggesting that the budget white paper be published two or three months earlier in the late fall for the purpose of discussing the current economic situation, and also that certain investment surveys both short and long term, be made available ahead of time. All this material should be made available for authoritative discussion by the federal and provincial governments in the late fall and published so that the public can be informed on what is being considered and have a thorough discussion of the economic situation.

We are also suggesting, as you know, that there be a joint committee of the Senate and the House of Commons, at least, that some consideration be given to it, where these reports are put before the committee and discussed there. That means we have a thorough examination of the state of the country, as to where we are going in the light of this, and the fiscal policy to be developed between governments for the coming year. That is the way we propose that we should take care of this very real problem you are mentioning here, the division of responsibility over this field in Canada.

Mr. ALLMAND: The only problem is that there is no power in such a case. If a government such as that of Ontario disagreed with the central authority on the influence of fiscal measures, you may have both governments acting at cross purposes. One may wish to introduce certain social welfare programs and the other may say that would be inflationary.

Dr. DEUTSCH: This is inherent in the situation. These are sovereign governments in their own field and there is room for disagreement. What else can we do but use the information we have, providing it as objectively and as carefully as possible. That is why we want this to be public, so that a consensus can develop, bringing independent objective views to bear on it. That is the only answer there can be. That is why we emphasize the need for public discussion and expert analysis, objective analysis and the political consultation which goes on. That is the only way you can get agreement and consensus, by basing it on good information and the best analysis you can find.

Senator CARTER: I am back to my question about timing. Do I understand from what you have said that it is impossible at the present time to say whether our timing up to date has been right or not?

Dr. DEUTSCH: Up to the present time?

Senator CARTER: Yes?

Dr. DEUTSCH: The Council says that the kind of restraint policies that were followed in this present year were about right, in its view. We thought the general weights of these restraint policies were appropriate to the circumstances. The Council also points out that what has been happening in these past several months raised the question of timing. One has to give it very careful consideration. If this flattening out continues, if investment continues to flatten, and perhaps decline, timely decisions will have to be made about adjustment of this restraint. That is what we are saying. At what moment are you ready to make that adjustment, is not an easy thing to say. At the present time I am not myself in a position to see clearly, and I do not think anyone else is, either.

Much will depend on the United States. This is the single most important thing. There they have not yet done the work; they do it at this time of the year. Between now and the end of the year the Americans are very busy preparing their economic reports—the President's report to Congress at the start of the session and the report of the Council of Economic Advisers. These are very important for us.

I would like to get a clear view of their assessment of their situation. Then we would be in a better position to make our judgment.

Senator CARTER: Dr. Deutsch, in your report you say that one of the causes of inflation is our attempt to take out of the economy more than we put into it. Of course, what we take out of our economy we take for things like old age pensions, social measures, medicare, and so on. With our present social security program, which takes more than we spend on defence, and with the proposed program, is there a danger that we might take out more than the economy will stand.

Dr. DEUTSCH: Senator Carter, the important thing is the total amount we try to take out, the overall amount. You can divide that up in a number of

ways—more in social security, less of something else; or less in social security and more of something else. This is a matter of judgment. This is a problem of whether we are putting too much pressure on the economy. That depends on the total pressure, the total demand for resources. This is the important thing. If the total demand is too big, you are in trouble. That can only end up in creating inflation. If you try to take out, overall, more than you are producing, it is an overall problem.

There is also the problem about impacts. If you push in one place too quickly, you might get rises in that one place and this brings other problems.

The basic thing is that if you have the load overall, you are going to make demands on the resources and there is only one answer, you drive prices up. This is the important thing—not so much how you divide it up, although this has certain other effects. It might have effects on the standard of living, it might have effects on other people, sociological, political and other effects. You have to make a judgment.

The mere fact that you have done something in one direction is not necessarily going to bring about inflation. It depends on the total.

Senator CARTER: No, but when you initiate a series of programs, you cannot modify them, they go on and on and on, and all you can do is add to the total. My point is, have we got to the point when we should not be adding more to the total?

Dr. DEUTSCH: Whether you should or should not add to the total is a decision that rests on other grounds. It rests on social grounds, political grounds—I am not using "political" with a big "P" but with a small "p"—it rests on social philosophy and that sort of thing. If you are adding new things and already have a full load on the economy, and if you cannot reduce in one direction, you must reduce in another direction.

What you have to keep an eye on is not to overload the economy as a whole. If you are going ahead in one direction, and then add in another direction so as to overload the economy, you are in trouble. On the other hand, if you work it so that you have a cutback somewhere else to accommodate it, that would be a proper decision.

Senator CARTER: If the economy is fully loaded?

Dr. DEUTSCH: If the economy is fully loaded, and if you want to add something else, you have to—

Mr. SCOTT: As a supplementary, in your judgment, is the economy fully loaded at the present time?

Co-Chairman Mr. BASFORD: I think that was Senator Carter's question.

Dr. DEUTSCH: At the present time the economy is flattening out. Up to recently, it has been fully loaded, until this flattening out. It may be a little overloaded in some respects. If this flattening out continues and even goes down, it will not be overloaded.

Only a few months ago, the economy was fully loaded and in some ways overloaded; but since then there has been a flattening off and the pressure has come off a bit and the problem now is, is this flattening out going to continue and become a turndown. If it is there will be room then for production.

Another way of doing it is this. If your economy is overloaded, and you want to do something more, the other way is to increase output somehow, by increasing productivity. This is the best way of doing it. If you can increase productivity, you can get more things.

Increased productivity means producing more with the same means. This is the best way of doing this. That is why we put so much emphasis on productivity in the Council reports. Our productivity performance leaves something to be desired.

We have been emphasizing in the Council that it would be a very good thing if we could improve our productivity, that we can do more things without the risk of price inflation, or not so much risk of price inflation. That is why there is so much emphasis on productivity improvement.

Otherwise, you have to stay within the total production. You can shift that around, if you want to, for good reasons; or you can add to production by better productivity, and then you can do more things without the risk of price inflation. At the moment we are at a sort of turning point.

Senator CARTER: I would like to get clearly one of your statements. A picture comes in my mind, when you say the economy is leveling off, that production is leveling off and we are going down—as I understand you, what you mean is that when it levels off there is room for more expansion?

Dr. DEUTSCH: Yes.

Senator CARTER: It was a false picture I had in mind.

Dr. DEUTSCH: If it really levels off and production does not rise, we are not achieving our potential. The economy has to move, as we say, on a potential growth path. This potential growth path means that you have to expand the economy to take care of almost three per cent increase in the labour force; and output will increase also by the increase in productivity. The two things go together. It has to grow that fast, if you are to achieve potential.

If it flattens off, it will not take long before you find yourself not absorbing your labour force and you are really not using your capacity. The question now is: Do we continue to flatten out or go up again, or will we go down?

At the moment there are signs pointing in both directions. In the first place there are definite signs to suggest that we have flattened off and are going down; on the other hand, the underlying position is quite strong. You see, we have come through a period of rapid growth in this country without having created much excess capacity, which is usually characteristic of boom periods. Normally, when you have reached the top of a boom, you have created quite a lot of excess capacity. This was true, for example, of the last boom in 1956. We came out of it with quite a bit of excess capacity. However, this time there is very little sign of any excess capacity. Although there are one or two places where there may be some, generally speaking, there is not much sign of any excess capacity.

In other words, this means that the underlying position is pretty strong. If you make a mistake under such circumstances and suppose that in fact you are not going down but will be going up, and on top of that you give it more steam, then you may overshoot the mark. Once having done that you are going to have an awful lot of trouble dealing with the situation.

We should be very careful not to be premature about these things, because the basic underlying position at this time is fairly strong.

Co-Chairman Mr. BASFORD: Senator Carter, I would like to move on. I have put your name down again. Mr. Scott, you have a supplementary, I believe.

Mr. SCOTT (*Danforth*): Thank you, Mr. Chairman. Before we leave this point, Dr. Deutsch, are you, from your studies, able to indicate to us any of the basic factors that may have brought about this levelling off?

Dr. DEUTSCH: One of the most important factors is that there has been some softening in the automobile industry, which is a rather large industry in North America. Perhaps you remember its rate of expansion has slowed down for some time. This has had a certain effect. Then there is some indication that forward investment plans are turning down. Housing has slumped. These are matters that have tended to slow things up.

Another thing is that rising costs have resulted in pressure on profit margins which have tended to go down. This is not an unusual thing in this kind of development. You reach the stage in the so-called business cycle where there is a

tendency for profit margins to get squeezed. That has been happening in Canada more so than in the United States. This also has an effect on forward planning on businesses.

All these factors have tended to have a dampening effect. The real question is how persistent will they be, and this is very difficult to discern at the moment. There are conflicting signs as to what the main factor will be. I think the American picture will be fundamentally decisive as to the direction we finally take.

These are some of the factors tending to dampen these things down.

Mr. McCUTCHEON: I have a further supplementary, Mr. Basford. Referring further to Mr. Scott's question, Dr. Deutsch, you have given us your signs pointing to a downward trend. Would you care to elaborate on those signs which point the other way? What are they?

Dr. DEUTSCH: First of all we have not got much excess capacity, as is sometimes the case with booms. This means that as the population grows and continues to grow there is a need for expanding output. Since we do not have much excess capacity, we have to continue to expand. This is a good situation. Secondly, our exports are doing very well on the whole. We have had a very good year in exports, and, at the moment, they still seem pretty strong. Whether they will continue to be strong depends again on the United States. That is why I always come back to that point. That is the question. At the moment however, they seem to be pretty good. We have had the biggest wheat crop in our history by far and we have markets for wheat on a scale which we never had before. We are exporting 550 to 600 million bushels. This is far above what we ever reached before, and all these things add strength to the economy.

In spite of the fact that there is some softening in automobiles and slowing up of forward investment plans at the moment, in spite of these things, these other factors that I have mentioned are quite good and that is why I say the underlying position is fairly strong. Therefore, it is not by any means clear what this flattening off will mean four or five months from now.

Again I emphasize that the way the American economy goes will be the key to our situation, because whether our exports continue strong will depend on the American economy, and, if they do continue strong, that will be a very important factor. That is where the link comes in, and that is why it is so important to watch the American economy.

Mr. ALLMAND: Dr. Deutsch, since this committee began in September we have been studying mainly food prices. We have done so because, of all of the consumer goods, that with which the consumer was most concerned was food, which seemed to be going up the most. In fact, D.B.S. figures showed that food had the greatest increase in the last year.

Dr. DEUTSCH: Yes, they did show that.

Mr. ALLMAND: Do you have any evidence which would indicate whether these increases in food prices were due to the general inflationary pressure or due to factors which are particular to the food industry?

Dr. DEUTSCH: I would say, Mr. Allmand, that there is a bit of both in it, as far as we can tell. The business boom, if I may call it that, in North America, the business expansion we have in the last five years, plays a part. You see, economies have been expanding quite rapidly in the last five years. The demand for food is rather inelastic, but for meats and some dairy products, and vegetables, the higher the incomes are the more people will spend on those things. So there has been more demand, and the more demand rises the more pressure comes on these things. There has been an element of that in it.

Also, farmers under those conditions have more difficulty getting labour because the demand for labour is high in the economy. To get the necessary supplies of labour especially in places where labour is intensive, such as in dairy

production and vegetable farming, the situation gets more difficult. So you have a supply problem.

This is only one factor, however. In addition to that there have been some particular factors as well which have not worked in favour of lower food prices. The hog cycle happened to be contrary. It went in the wrong direction. Just as demands for meat went up sharply, the output of hogs went down. So in food prices indexes you will note that pork has gone away up. This has had an effect on other meat prices, on beef and even on chicken. This has had a rather bad effect. Then, unfortunately, there have been some climatic situations in vegetables and in fruits in the United States. The climate in 1965 was particularly unfavourable and there were some shortages which aggravated the situation. Then, of course, the general food situation in the world has tended to tighten up over the last four or five years. The growth in population in the world is now very rapid and the demand for food in the world is rising so rapidly that it has tended to clean out surpluses. You may remember that in the 1950s we always had surpluses which dampened the markets. There were big surpluses in both the United States and Canada. These have disappeared by and large so that the situation is tighter at a time when world population is growing and will continue to grow very fast. This has added a sort of general tightness to the whole situation, which, compounded with the other factors, creates the present situation.

As far as the retail situation is concerned there is a continuing increase in the price of service elements in the cost of foods.

As far as we can see from our studies, these non-food costs have been rising. They were less than half of the total cost in 1949. They are now much more than half of the total cost of food at retail.

Mr. ALLMAND: You are referring to service elements that go into food.

Dr. DEUTSCH: Yes, and these have been rising relatively. This has also tended to add to the rising prices. There is no simple answer to this question. It is a complex of quite a few things.

Mr. ALLMAND: Further to this, sir, have you made any study or do you have any opinion on the economic effects of the volume of advertising in the food industry in Canada? We had a Swedish expert here who has a role similar to yours in Sweden, and he said that in Sweden they have very little advertising in this area, either in the journals, on television or radio. Have there been any studies made of the economic effects on demand of the advertising volume in Canada?

Dr. DEUTSCH: No.

Mr. ALLMAND: Or in the United States—or, indeed, the North American continent?

Dr. DEUTSCH: I am not familiar with any that have been made. We have noticed in our own studies the so-called advertising element in food service cost has been rising. In one of our tables you can see that. You will see the proportion of advertising has tended to rise, including such things as trading stamps. That is one of the elements in the overall rising service cost. What effect this has had on demand, I do not know. I do not know of any studies that have been made, as to whether it has had any effect on the demand for food. Generally speaking, food demand tends to be pretty inelastic in our society, and I would myself think that the total demand for food would not be much affected. At least, I would be surprised, as an economist, if it did. It might shuffle it around in a different way, but I would be surprised if it had an effect on the total demand, because food is not a thing people spend rising incomes on mostly. So, I would be surprised, as I say, as an economist, if it would have an overall effect on food expenditures. I doubt it.

Co-Chairman Mr. BASFORD: May I ask a supplementary question?

Mr. Fullerton has advocated to the committee that we tax advertising in order to decrease demand. I take it your remarks would not support that suggestion.

Dr. DEUTSCH: I was not talking about advertising in general but only on food.

Co-Chairman Mr. BASFORD: Generally?

Dr. DEUTSCH: That is a different question. I was talking particularly about food. In general, I do not know; I have not studied this matter. This is a sociological and psychological sort of thing, and I am not expert in that field. I have not seen any studies on it. However, I am talking about food particularly; that is the particular area. You must not use that argument for the general case, because the elasticity of demand—and I am using economists' terms—the "elasticity of demand"—that is to say, what people would buy as incomes rise—is much greater in other fields, durable goods and things like this, and even clothing. There you might be able to stimulate demand. I do not know, but at least that is the theory. But in food, demand tends to be rather inelastic anyway, and I do not think the total amount spent on food is very much increased by this.

Mr. ALLMAND: A final question. In your report you do not seem to have much faith in guidelines. From that do I take it you imply that we might need some more stringent control of prices, or none at all? You said, when you criticized guidelines, that you want something more, you want price control or price review. I would like to have your attitudes on price control.

Dr. DEUTSCH: Let me come at your question as you put it. On guidelines generally, the Council does not feel—on the basis of very considerable studies we have made on the working of guidelines in other countries, the experience under them and the views of the people who have looked at these things in great detail—that they are likely to be practicable in this country, for various reasons we have described. This is not a favourable country in which to use this type of device, for the reasons we give.

Secondly, our conclusion is that a guideline policy deals essentially with symptoms and not with real problems. This is the real criticism of them. Guideline policies may have some value as an educational device. I think they have had some educational value. You start a public debate and discuss what the economy can and cannot produce—something like the discussion we had a little while ago. But we say there are better ways of getting this educational value, or just as good, without some of the risks you have in the guideline policies. As I say, they deal essentially with symptoms, rather than with real economic problems. It is like the situation when something gets overheated, the only way to deal with it is to bring the temperature down and not rig the thermometer. I know there is a great temptation to rig the thermometer, but that does not deal with the problem. The thing to do is to bring the temperature down. You may try to fool yourself by rigging the thermometer, but that does not do anything; and that is all it is really. So, we say that given the special difficulties in Canada this would not be a good way to use our energies and we should get on with much more important things and get down to realities.

We say that basically you must have your fiscal and monetary policies right. If they are wrong, then there is not much that will help you. However, these policies alone are not enough to get a good performance. In the economy the pressures do not come evenly. As demand increases there are pressures in some places more than others, and you get bottlenecks and shortages of supply, and so on. You have instabilities in the system. The big one in this country is construction, which swings very widely. It is a much bigger industry in this country than in the United States and has had more influence on the economy. This industry

has fluctuated very widely and has caused great pressures and difficulties when we come to booms. When it swings down it is a very unstable element in the whole picture. It is the cause of a good many of the excessive cost and price changes that occur in these swings. If you could stabilize it a bit more, both the non-residential construction and housing, you could take some of these pressures out of the system and reduce the bottlenecks and the cost and price increases that occur.

Then there is one more very important element, much better planning by governments, much better forward planning of construction programs, and governments should not aggravate these swings, which they have tended to do in the past. At least, if they cannot do anything more, they should at least be reasonably stable and help stabilize the whole industry and, if possible, even counter the other fluctuations. At least, they should be much more stable in the development of their programs. As I say, this has not been the case and, in fact, governments have tended to aggravate the instability. Therefore, this requires better forward planning, longer forward budget making and much more careful planning at the different levels of government. This would be an important additional element.

Then there are particular shortages, and so on, that occur. You must try to foresee them as much as possible. This means better information, and this is particularly so in the field of manpower. In this particular boom we have run into great shortages of skilled labour, causing bottlenecks and difficulties and increases in costs. This is the kind of thing we should try to foresee, and we should have better information.

Also we should have adequate manpower policy to deal with these things. That is why the Council has emphasized very much the importance of manpower policies. In our country, like all modern industrial countries, there are tremendous shifts taking place between demands for various skills. Through automation and technological changes demands for certain kinds of skills are rising very rapidly and others are going down. Unless you cope with these things you are going to get the increases in costs. Manpower policies that provide for better and quicker training and help people move have a lot to do with solving that problem. We should have a whole series of supply policies.

We must also get an adequate improvement in productivity and keep emphasizing the need to improve our efficiency and productivity and competitive position in the world. This has to be emphasized. If these things are done, then with good fiscal and monetary policies plus these kinds of supply policies, we should get along fairly well.

Mr. ALLMAND: You do not think price controls would help?

Dr. DEUTSCH: Not as a normal thing—I am not talking about monopolies here. How to deal with monopolies, and so on, is another problem. Excessive market power is another problem.

You may need some regulatory or price control mechanisms in those fields but, in general, assuming that monopolies and excessive market power are not what we are talking about, then I have no feeling that price controls are a very effective way of dealing with the problem. They deal with symptoms. If you have a problem or a pressure point, or something that causes things to jump up, you have either got to reduce the demand or increase the supply. There is no other way. You must reduce the demand or increase the supply. I prefer, personally, to increase the supply, but if you cannot do that, and if you are worried about the increase, then somehow you have got to take the pressure off the demand. Price controls do not do either of these things. That is what I mean when I say they deal with symptoms, and not with the problem. It is no use wasting our time on those things. It is fooling the troops.

You can do something else. You can put on price controls if you combine them with rationing, because then you are dealing with demand. But, price control, without anything else, just deals with symptoms and that is all. It does not deal with the real problem.

But, when you come to monopolies and market power then that raises other problems.

Mr. SCOTT (*Danforth*): In that general area is the Council making any studies? You used the phrase "selective price controls".

Mr. DEUTSCH: Yes.

Mr. SCOTT (*Danforth*): Is the Council making any studies in the area you mentioned?

Dr. DEUTSCH: Very much so. This is the next big reference we are going into. We are taking a look at this whole question of market power and monopoly, and we are examining all the ways of dealing with this matter. We have in this country a certain approach in regard to anti-combines policies, as you know. We are reviewing them to see if what we are doing is adequate in relation to the kind of economy and society we now live in. We are just starting on this whole examination.

Of course, there are problems in this field not only of price, but problems of efficiency, the use of resources and everything else that comes up. These are essentially longer run problems. We may need particular ways of approaching and dealing with these problems of excessive market power and monopoly.

Co-Chairman Mr. BASFORD: Have you concluded, Mr. Allmand?

Mr. ALLMAND: That is all for now, Mr. Chairman.

Co-Chairman Mr. BASFORD: Senator O'Leary?

Senator O'LEARY (*Antigonish-Guysborough*): As a previous member of the committee pointed out, Dr. Deutsch, we have been examining the food industry for the most part in this committee. In your remarks you referred to the profit squeeze in industry generally. Have you evidence of this taking place in the food industry, for example?

Dr. DEUTSCH: In the particular food industry—no, I was speaking in general, Senator O'Leary. I was not taking specific industries. I would have to look at the specific case in order to be able to answer your question. You must remember that I talked in general, and in general there has tended to be a decline in unit profits recently as you will see from our chart. They went up in the early stages. What happens normally in one of these expansions is that in the early stages of the expansion profits rise faster than wages and salaries. Unit profits tend to go up. Then, in the latter part of the expansion, salaries and wages tend to catch up, and profits tend to go down.

You will see this happening on the charts at page 227 of the report. There are two charts there, one with respect to Canada and the other with respect to the United States. You will see there unit labour costs and unit profits. You will see that the profits tend to fluctuate a good deal more than wages. They go up in a period of expansion. From 1960 on they are rising, and then you see them coming down as we get to the top of the boom. This is not unusual. This may not be true of specific industries inside the whole:

Senator O'LEARY (*Antigonish-Guysborough*): Yes. I think it is important because my interpretation so far of the evidence given us is that the food industry has not suffered any pains.

Dr. DEUTSCH: That may well be. I have not looked at that particular segment. You must not particularize on my general statement.

Senator O'LEARY (*Antigonish-Guysborough*): By the same token I could not agree that in the food industry we have suffered a greater profit squeeze than the United States has.

Dr. DEUTSCH: In the food industry?

Senator O'LEARY (*Antigonish-Gysborough*): Yes.

Dr. DEUTSCH: You may well be right, Senator. I have not the figures with me right now, or figures for any particular industry. You must not generalize. They may move differently.

Senator CARTER: May I ask a supplementary question?

Co-Chairman Mr. BASFORD: Yes.

Senator CARTER: At page 124 you give the gross margins for food processing, and I notice that the margins for breakfast foods are away ahead of those for any other kind of food. In fact, they are away ahead of the margin for the total food industry.

Dr. DEUTSCH: Yes.

Senator CARTER: Is there any special reason for that?

Dr. DEUTSCH: I happen to have with me Dr. Dawson, who was the secretary of the Royal Commission which studied this matter. He is a member of our staff. May I ask Dr. Dawson to say something about that? Dr. Dawson was secretary of the Stewart Commission which examined food margins a few years back.

Dr. John Dawson, Staff Economist, Economic Council of Canada: What was the question?

Senator CARTER: The gross margins in respect to breakfast foods range from—

Dr. DEUTSCH: Yes, it is on page 124, gross margins in food processing.

Senator CARTER: Yes. They go up to 75.4 in 1954 and 75.3 in 1959, and down to 70.9 in 1963, as compared with half that figure for the industry as a whole. These figures are three or four times those for meat products.

Dr. DAWSON: I think I should make a comment on this. This is a processing industry that the Price Spreads Commission did single out for particular attention in its report in 1959. It is an industry which had relatively high profits in relation to its investment throughout a good part of the fifties, and also an industry which had substantial advertising costs. That was the situation then. We do not have as much information on the breakfast food companies or cereal producing companyies through this last period as we had through the period from 1949 to 1957, so I really cannot comment on the situation since then. I have seen some of the evidence given before this committee, but I have not really studied it.

Senator CARTER: But it is still up in 1963.

Dr. DAWSON: The material here suggests that the industry has not changed that radically in the last few years.

Senator CARTER: They have not changed their profit margins.

Co-Chairman Mr. BASFORD: This was the evidence the other day, Senator. I asked them if any change had occurred, and they said: "No".

Dr. DEUTSCH: They said: "No"?

Co-Chairman Mr. BASFORD: Yes.

Mr. URIE: Should it not be emphasized, Dr. Deutsch, that this is dealing with gross margins?

Dr. DEUTSCH: Yes, these are gross margins. They are not just profits, but they are margins to cover their advertising and everything else, and this is a very big element in the total cost.

Senator O'LEARY (*Antigonish-Guysborough*): You point out here in chapter 4 and also in your summary, and you referred to it in your remarks, that one

of the greatest contributing factors to increases in the food industry is the marketing costs, and you have broken them down into the costs of marketing, packaging and distribution.

Dr. DEUTSCH: Yes.

Senator O'LEARY (*Antigonish-Guysborough*): To your knowledge is the great price increase that has taken place in the food industry over the past few years due to the particular services that are given, and if this is so do you not think that the volume should have been able to compensate for this increase?

Dr. DEUTSCH: I suppose the volume probably has, but the cost of the services has grown even faster. As you know, you have plenty of evidence that the amount of services that are now incorporated in food is much greater than the amount ten or 15 years ago, and this costs money. Even the parking spaces outside the big supermarkets cost money. The range of services has increased. The processing has increased. The packaging has increased. All these things cost money, and they have increased the cost to the ultimate purchaser.

Now, presumably the purchaser finds that all these things are of a convenience to him, but he may think that some of them are not. Some of them are promotional operations. The end result has been that these kinds of costs have been rising more rapidly than the cost of food itself. That is true. I suppose if these things are undesirable then somebody should come forward and offer the consumer something else. If people do not want these services, these things, then perhaps it would be a good thing if there were opportunities for consumers to buy these products without these things. That is another way of looking at it.

Presumably we could see people trying to buy food on another basis, if that is what consumers want. How to achieve that is of course a problem for consumers and those that are concerned with this matter. There are various ways of dealing with it. Co-operatives are one way out that might offer the consumer food without all these things that they do not want.

Senator O'LEARY (*Antigonish-Guysborough*): You have not actually made a study of consumer wants?

Dr. DEUTSCH: No. if there is concern about it, one way would be to encourage development of other ways of serving the consumer, if that is what he wants.

Senator O'LEARY (*Antigonish-Guysborough*): But in considering the increased costs in the marketing processes in the distribution of components, you did consider promotion?

Dr. DEUTSCH: Yes, we did.

Senator O'LEARY (*Antigonish-Guysborough*): And advertising?

Dr. DEUTSCH: You will see in Table 123 a column on advertising, and you will note that it is a rising proportion.

Senator COOK: And Table 222 indicates that the unit costs are coming down.

Dr. DEUTSCH: Yes.

Senator COOK: Is that indicated in relation to volume?

Dr. DEUTSCH: This is the result of pressure on costs, I think, both the pressure of costs and increasing volume.

Senator COOK: There might be a lower unit cost.

Dr. DEUTSCH: That is true. This would be a combination of both factors.

Senator O'LEARY (*Antigonish-Guysborough*): I am not in disagreement at all. This is very obvious from your charts and from the evidence we have had here. Perhaps we are into the other field as you said, the monopoly area.

Dr. DEUTSCH: Yes.

Senator O'LEARY (*Antigonish-Guysborough*): I will give this example. We considered cereals here and we found, for example, that a company had done very well in 1965. On September 1 they increased the price of one commodity, which was one of their largest selling commodities, by 13 per cent, and their answer was that this increase was their actual anticipated rising cost for this year, and that was the reason for their price increase.

Dr. DEUTSCH: What did they include in costs?

Senator O'LEARY (*Antigonish-Guysborough*): They included ingredients. Then we went on to a witness immeditaely following that in the cereal business and he said a 5 per cent increase had taken place, and accordingly they added 5 per cent to their product across the board.

Dr. DEUTSCH: Because somebody else did?

Senator O'LEARY (*Antigonish-Guysborough*): That I do not know, but they added 5 per cent across the board.

Dr. DEUTSCH: This is tricky, and may be due to what we call leadership, or may be due to the market. You would have to look at the individual situation. When the price rises in the most competitive market of all, price tends to rise for everybody, even though you have no monopoly control. On the other hand, when you have very few producers you get the situation often where one is a price leader and the rest follow behind. Every individual situation has to be looked at.

Mr. SCOTT (*Danforth*): You mentioned in your report something about taking a regional look at things. Is there any agency at present with the power and the facilities to look into specific increases of this nature?

Dr. DEUTSCH: Yes, there is a combines administration.

Mr. SCOTT (*Danforth*): They do not do it automatically?

Dr. DEUTSCH: They can do it automatically if they wish, or on the basis of complaint. Both things apply. This is the Restrictive Practices Commission. There is such a body and they make a great many investigations to find out whether monopoly has been operating or not or whether combines have been operating. You can complain and have an investigation made, and they issue reports; there are great stacks of them. The question is, is it operating in the best possible way. That will be our next reference, and we shall be reviewing and looking into the whole question.

Co-Chairman Mr. BASFORD: Some very careful studies have been made on this question. Since none of the members of this committee are professional economists, it occurs to me that only so much in the realm of economics can be received at a time, and I suggest that we take a 15-minute recess.

(Recess)

—Upon resuming:

Mrs. MACINNIS: I want to begin by saying that I do not want to break the thermometer. I wish I were able to question less clumsily than I have to because I have not got this economic terminology. Perhaps my line of questioning is a little different from the questioning so far.

I say right away that I think everybody agrees that the key to the whole business is productivity, increasing the share of the pie.

Dr. DEUTSCH: Increasing the pie.

Mrs. MACINNIS: For some of us, the problem is this. There are a number of other factors tied in with productivity. As a matter of fact, the reason for this committee is because there has been a great deal of dislocation this year among certain groups. There has been much dissatisfaction. We have had the farmers with their tractor parades, the housewives with their boycotts, the wages strikes,

the great distress among low-income groups such as old age pensioners. In this committee, we have seen this lopsidedness of income, where the strongest groups get the most out of this. Whether it is wages or prices or profits, the strongest ones in each field take out what they can get. It has been a matter of each one competing for the share of productivity, such as it was.

Supposing we say that more productivity in the round means more income all round. Supposing we look at the productivity, at any time. I want to get at your Council's thinking as to whether there is any way in which we can get some kind of meaningful balance among these different factors—the profits, wages, salaries, prices, the Government allowances or pensions, and the people on retirement allowances.

Does your Council believe that there is nothing to do but just let each group fight for a share of the income from the productivity—that there cannot be anything else done except to inform the public as to the general facts of the economic situation? That is what I would like to get at.

Dr. DEUTSCH: I think, Mrs. MacInnis, that I know what you are getting at. First of all, about increasing the size of the pie, I think we all agree that the bigger the pie is, the much easier it is to solve the problems. This is always a good thing to do at any time, and you are able more easily to solve a lot of the problems when the pie is growing.

The standard of living always depends on the size of the pie, so the basic productivity is extremely important. All problems become easier to solve, all people have a higher standard if that is done. If that is not done, there is nothing else going to give it to you. After all, the question of division of the pie is the question you are coming to.

Mrs. MACINNIS: That is it.

Dr. DEUTSCH: The question of the division of the pie is also very important. The question is how do we divide it most fairly, having regard to all the criteria that are proper here. This is a very difficult problem.

Le me just run over the various economic and social goals of the council, in order to indicate the degree of concern we have about these things. The first and perhaps most important economic and social goal a country can have is full employment. If people are out of work, that is the worst way in which they can lose income. Therefore, to share in our growing potential it is extremely important that people have the opportunity to get meaningful work. That is absolutely one of the most important things of all in order to share in the possibilities of the economy. There must be opportunities available for people. That is why this goal of full employment is very important in the problem of income distribution.

If you do not get full employment, there will be dispossessed people who have nothing and who will have to live on relief and so on. Of course, that has to be done where there is no work. I am not against relief in such a case. The first thing is to give adequate opportunities to people to use their capacities and talents. We are concerned about this very important goal.

Secondly, we should achieve an adequate rate of economic growth. These two things are related to each other, since, if we do not grow fast enough, we will not have opportunity for full employment. Also, the rising productivity in the growth is important. Growth is made up of two things: How much work there is and how productive the work is. If you make your work more productive by new technology, new methods, better efficiency, better management and so on, then you get more out of it and you get a higher standard of living. That is important.

If you lift up lower incomes by more productivity, you have more available for this purpose without taking something away from somebody else. It is always easier to give somebody something in addition than to take something away from somebody, you know. If you can get new resources to lift lower incomes so much the better.

Our third goal is reasonable stability of prices. Why do we have this as one of our goals? If we do not get reasonable stability, people are going to suffer. When I refer to stability I do not mean an absolute, rigid stability. Our system does not work that way, because fluctuation is the essence of our system. It is a mixture of public and private enterprise which works on a market basis as against a rigid, controlled basis. On the market basis, some prices are going to go up and some are going to go down. This is the way the system works. But what we do not want is a general upward drift of prices at too rapid a rate. If we do not get reasonable stability of prices, some people are going to suffer: the old people, the weak people, the ones who are the weakest.

Those people who are weakest, in the market sense, very often are old or are simply handicapped in one way or another or are the lowest income group. These are the ones who often suffer from rising prices. In the market struggle, they cannot keep up or there are lags in the social legislation. Therefore, reasonable stability of prices is something we should aim at very largely for the sake of equity, I would say. It does not take care of the whole problem, actually, but it is one of the elements.

Moreover, if you get too unstable prices, it is hard to keep a smooth rate of growth in the economy, and then you get larger fluctuations. One of the important reasons is to maintain equity as much as possible, especially for the weaker people. When prices are rising rapidly, it almost never happens that you keep those lower levels up. Legislation lags, social welfare benefits lag, and so on, and those people who live on fixed incomes cannot adjust them.

Our next goal is a viable balance of payments. The reason for this is that, if you do not keep the balance of payments viable, you are going to have to do some drastic things. They may stop your rate of growth and they may cause unemployment. So you must keep your eye on the balance of payments and not get into trouble. If you do get into trouble, then in trying to solve that trouble you are going to have to do things that are not very palatable and which are not good for the economy or for the people in it.

We do see some demonstrations at the present time of troubles in other countries that have not been able to keep the balance of payments viable. Therefore, it is important to do this.

Finally, we say that we should have equitable distribution of rising incomes. This is something we should be working to achieve.

Mrs. MacInnis: How?

Dr. Deutsch: That is a good point—how? This is something the Council has been asked to do and something we address ourselves to seriously. There are many aspects to this problem. We have begun on some of them. It is quite obvious there are many places in this country, groups, regions and areas, where incomes are low, and they are below the levels which are desirable on any grounds. Our policies should work to raise these. For instance, this arises regionally, for one thing. We have whole regions in this country where incomes are relatively low compared to the rest of the country for the great majority of people, and they have been so for a long time. This is one aspect of this problem. In our second review we have a considerable section on this, and we have started on this regional aspect.

There are other aspects too. Take the distribution of incomes. There are areas, to use the common phrase now, of poverty. The first thing we have to know is why these exist. There are many reasons; they are not simple. Some arise through a persistent set of circumstances that have brought the situation about. We have to try to correct these. In many cases people are locked into situations where there is no future. How do you get them into areas and industries where better opportunities exist? Secondly, they may have a long inheritance of inadequate education. That has to be corrected. In other places

they have not enough social capital. That needs to be corrected. These are some of the causes of these things. This is what we want to address ourselves to. Also there are categories of occupations that tend to be very low in income. What are the reasons for this? When we find the reasons, we should work at them. This is what we have to do, and this is a very necessary part of the concern of the Council.

I am afraid that again, like all these things, there is no solution that can be found over night to all these problems, but the sooner we get started, the better. Not only the size of the pie, but the division of the pie is part of our concern.

Mrs. MacInnis: May I ask whether you believe as a mechanism in getting pensions or incomes to a minimum standard escalator clauses perhaps, first of all, in Government pensions or allowances or retirement pensions of any kind, should be included, beginning with the lowest groups?

Dr. Deutsch: Our Council has not pronounced itself on this particular question. I must make clear what I am speaking of is what the Council has done. You are asking me personally.

I have a good deal of sympathy for what you are suggesting, frankly. If, in fact, we are caught in rising prices for some reason or another—and sometimes we cannot help it for reasons outside our country, and so on—then I think the weakest elements of the community should not be made to suffer unduly. I personally have a good deal of sympathy for dealing with those things, but the exact technique is another question, the ways you can do it—whether you use the simple indexing technique—that is one thing that has been tried—or some other way of doing it. Indeed, we have it now in the pension scheme, to some extent.

As I say, I have a good deal of sympathy in this regard. The weakest elements in our community should not be made to suffer unduly in things like this. For those who have to depend on these kinds of incomes I think there should be an effective way of making adjustments.

Mrs. MacInnis: What is bothering me is that as productivity increases I do not see what mechanism there is for practically the same thing happening with increasing productivity, that it goes relatively to—

Dr. Deutsch: To the highest levels?

Mrs. MacInnis: Yes, the way it has been doing.

Dr. Deutsch: Actually, the history does not prove that at all. The longer term trends have not shown that. If anything, they have gone in the direction of a more even distribution over time. You may say this has not gone fast enough, but the trend has been in the direction of a more even distribution in the last 50 years. You may say this is not fast enough—that is another argument. There is room for considerable improvement, I admit. Especially among these lower groups and the poverty areas of our society, there is a great deal of room for improvement.

Senator Carter: May I ask a supplementary question? I think what Mrs. MacInnis is thinking is perhaps what we are all thinking about, and that is that we are entering into an age of automation which will increase productivity tremendously, and who is going to get the benefits? I wonder if you could provide any figures whereby you could give the committee the percentage of the gross national product represented by increases in profits as compared to the percentage increase in wages?

Dr. Deutsch: It is in the book here.

Senator Carter: Where?

Dr. Deutsch: We have a table which gives the percentage of wages, profits and interest, and other incomes.

Senator CARTER: In terms of the G.N.P.?

Dr. DEUTSCH: Yes, on page 137. This goes back to 1926; that is 40 years back.

PERCENTAGE DISTRIBUTION OF NET NATIONAL INCOME

	1926–29	1950–53	1962–65
Salaries, wages and supplements paid by			
Business	50	52	52
Military	*	1	2
Other general government	6	7	1
Persons and institutions	3	2	4
Sub-total	59	63	68
Corporate profits before tax	11	16	13
(after tax)	(10)	(8)	(7)
Deduct: profits remitted to non-residents	− 3	− 2	− 2
Rent, interest and miscellaneous investment income	10	6	9
Deduct: payments to non-residents	− 3	*	*
Net farm income from farm production	13	10	5
Other net non-corporate business income	12	9	8
Adjustments	*	− 2	− 1
Net national income at factor cost	100	100	100

*Less than one half of one per cent.

SOURCE: Based on data from Dominion Bureau of Statistics.

"Salaries, wages and supplements"—that includes overtime and things like that—"paid by business." It was 50 per cent in 1926-29; 52 per cent in 1962-65. Then there is "paid by military, other general government"—government has been a rising employer. The total of wages and salaries in 1962-65 being 68 per cent of national income. Some of the rise is due to a decline in agriculture.

Then "Corporate profits before tax" were 11 per cent in 1926-29, 16 per cent in 1950-53, 13 per cent in 1962-65. Then if you take the taxes out—taxes went up very much over this period—it becomes 10, 8 and 7 per cent.

Then "Profits remitted to non-residents"—that is going outside the country: 3 per cent in 1926-29, and 2 per cent now. The proportion going out of the country is not rising. If anything, it has gone down a bit.

Then you have "Rent, interest and miscellaneous investment income." This has gone from 10, to 6, to 9, per cent. "Payments to non-residents" have gone down a great deal because of the wartime repatriation of our bonded debt; it is now quite small, the net figure going out of the country. The big reduction has come in agriculture; this is due to the shift. Again, this comes back to the inelastic demand for food stuffs. As incomes rise people spend a smaller proportion of their income on food. It is the big factor that explains these figures: 13, 10 and 5 per cent of national income. "Other net non-corporate business income" —that is small business, not incorporated: 12, 9, 8. They are becoming a smaller element in the community.

Then you have some statistical adjustments which are not significant. This gives you the broad trends.

This is what I said earlier, that if anything the trend is slightly in the direction of wage and salary income as against property income, but one very big factor has been agriculture, which has become a smaller factor in our society.

Mrs. MacInnis: Could I ask you one more question? This is too good a chance to miss! Have any studies been made as to the optimum functioning of an economy, as to whether or not it is a good idea to have wide differences of income among certain groups like labourers and farmers and the overall spread? Have you made any studies to find out whether the thing would work better—

Dr. Deutsch: If they were more even, or equal?

Mrs. MacInnis: No, whether where there is a relationship it would be better. Our committee is concerned with this because there is an imbalance as between certain sections of the producers and the consumers. I am wondering whether you have made any studies along this line.

Dr. Deutsch: No. This gets pretty sociological, you know, Mrs. MacInnis, as well as economic. In this country we have always to keep in mind another factor here, namely, that some of the people who get the highest incomes are the scarcest people because of their skills, and so on. In fact, I think the income tax returns show that the highest incomes, on the average, are those of doctors. Then you have all sorts of other people, and, of course, you have the business managers and owners, and so on. But, among many categories of skilled people—skilled in the sense of both professional and technical and managerial skills; both are very important—there is a world-wide scarcity. There is a world competition for these people, and we have not much choice but to stay in the competition. It is no use being woolly-minded about this. We are just in that competition, and we are in it particularly because we live next to the United States. We cannot make it go away. It is a problem. The only way you can deal with it, if incomes are too high, is to produce more of these people. We must have more education and more training so as to increase the number of these skilled people. That is the only way of coping with the demand. We are only a small factor. I suspect that the general range is set by North America. You might say: "Well, let them all go away if they want to", but I suspect that that would not be good for the low income people either.

Mr. Otto: Dr. Deutsch, I am going to ask you a question in connection with your definition of "demand," but in reply to Senator Carter's question you said that naturally we cannot take out of the economy more than is in it; that we must either reduce the demand or increase the supply. I take it that you are in favour of increasing the supply.

Dr. Deutsch: Yes, as much as possible.

Mr. Otto: I want to go further and find out whether we have any control over demand whatsoever. In other words, I should like to know whether it is a factor to be considered. You have stated that our economy does not accommodate wage parity with the United States.

Dr. Deutsch: At the present time, that is right for the economy as a whole.

Mr. Otto: You have convinced the government, and you have convinced business, and you may have convinced the executives of organized labour, but I think you will agree that you have not convinced the rank and file of organized labour. Within a year or a year and a half we are going to have an absolute demand for wage parity—a demand that may not be a rational demand, but it is a demand that is influenced by all kinds of other factors.

Dr. Deutsch: Yes.

Mr. Otto: How can we control that demand?

Dr. Deutsch: I do not know what method will be used, but if by some method they were all trying to get parity in money wages—and money is what they talk about—things would happen pretty quickly to see that the real wages were not there. First of all, we would get into balance of payments trouble. That is the first thing that would happen. We would have to deal with that. I think

that is what would happen in those circumstances and it would bring the real wages down again.

Mr. OTTO: I am not asking you that. I am asking: How do we control it?

Dr. DEUTSCH: If it happens then things will happen in the economy that will correct it. How do you control it? I think in the first place the most important thing is to ensure that we do not over-heat the economy by putting too much demand into it. If you do that then you will push wages and prices up. They will rise. The opportunity for putting them up will be there, you see. If you keep demand within the capacity of the economy there will be a great deal of resistance—there will have to be—from the people who pay the wages. The people who have to negotiate will have to resist, otherwise they will go broke.

When you get to the top of the cycle in a boom, this happens. This has happened more than once. But, practically speaking, when you get to the top of a boom you will see profit margins falling and unit wage costs rising. The companies start getting pressed, and they start pulling in their expansion plans. When they reduce their expansion plans that brings down the level of employment. The companies have to resist wage increases because their profit margins are falling, and they will have to resist them because if they pay too much at that point they will go broke.

The important thing is to keep the general weight of demand right, and if that is excessive—if you are putting more demand in when you are already operating full out—then what happens? The companies then can afford in money wages more than the economy produces, and when that happens prices will be driven up, and if you drive prices up far enough you get into balance of payments problems because you are sucking in goods from outside. Then you will have to bring the curtain down, and that is sometimes a rough business. This is what you have to try to avoid. That is why it is no good running along like that hoping you will get away with it, because eventually you come up against a balance of payments crisis, and you have to bring the curtain down. You may have to establish austerity programs and you may have to have an even tighter money policy. There is a demonstration going on overseas right now, and you can watch it. They are deliberately trying to shake labour out of some lines of production and thereby increasing unemployment.

Mr. OTTO: Dr. Deutsch, I would like to pursue an example. This will probably happen because the demand will be there—not the demand but the command will be there—but let us suppose the automotive producers are caught in the profit squeeze, as you have said, and they lay off 50,000 men. Under the orthodox view of demand and labour, wages would drop.

Dr. DEUTSCH: I do not think they would drop necessarily.

Mr. OTTO: I am taking the catholic orthodox view.

Dr. DEUTSCH: I see—not the orthodox view of economists?

Mr. OTTO: Even though you know there is unemployment the wages in that industry will not drop a penny?

Dr. DEUTSCH: No, I do not expect them to.

Mr. OTTO: In other words, the price of whatever cars are being produced will go up. Now, this is a result with which I agree whole heartedly, but what I am saying is: How then can you control demand? You have stated that we must either control demand or increase production.

Dr. DEUTSCH: That is right.

Mr. OTTO: You have stated that the chances are you cannot control demand—

Dr. DEUTSCH: No, I did not say that. I said if you have too much demand the only real and effective solution is to bring the demand in line with your capacity

to produce goods. The main factors there are your monetary policy and your fiscal policy. These are the main things that determine the level of demand generally in our economy. Given a certain exchange rate at a particular moment the main factors that determine your demand level are your fiscal policy and your monetary policy. If they are running in such a way that there is an excessive demand you have to increase your restraints, both monetary and fiscal. You have to tighten up on your monetary expansion, or you have to increase your budget surplus. This is the way you control it.

Mr. Otto: I want to pursue that subject because you have made the statement that you can do it by both monetary and fiscal—

Dr. Deutsch: Both factors are important.

Mr. Otto: But the demand, in your view—

Dr. Deutsch: I am talking about overall demand. I am not taking any particular sector. I am talking about overall demand.

Mr. Otto: Let us take overall demand, then. It is your view that the purchaser, or the person buying the goods, is concerned only with his income, and he makes a rational decision as to how he spends his income.

Dr. Deutsch: I suppose he makes a decision as to how he wants to spend it. I am not going to go into his head and look to see whether his choices are my choices. He spends his income in the way he wants to spend it, yes.

Mr. Otto: So I put it to you that the demand is not influenced by income, but by other factors such as advertising and promotion. Let me give you an example of a man earning $4,000 a year. He may not be able to afford a colour television set, but after all the advertising is through with him he knows he is a nothing until he gets a colour television set. If he has not the money with which to buy it he uses his credit and borrows the money. Is that man's demand a real demand?

Dr. Deutsch: It may be that the amount of credit available will have to be restricted. When you tighten up monetary policy you, in effect, do this. This is one way of doing it. If he wants a television set and he has the capacity to pay for it, then that is his business, but if the demand for credit is excessive then monetary policy can help to restrict it.

Mr. Otto: This is very drastic.

Dr. Deutsch: Yes, it is very drastic. If you are overdoing something and want to break it you have to take restraints.

Mr. Otto: That is what I wanted, because we have had evidence in committee that of 75 per cent of the population that does use consumer credit, on the average they are indebted in an amount around $2,800, and at 18 per cent to 20 per cent, it costs them about $500 or $600 a year on interest alone. The point is, if you restrict credit what are the manufacturers going to do and how are they going to sell their goods?

Dr. Deutsch: Then the demand comes down, and that is what we are trying to do when demand is excessive. We are trying to restrict excessive demand. You cannot have it both ways. If I want to get down demand the only way is to reduce demand. I do not know of any other way to do it.

Mr. Otto: But then you do not reduce desire.

Dr. Deutsch: Oh, desire is another thing. I have enormous desires. My trouble is that I cannot afford them.

Mr. Otto: Let us pursue this matter as far as the consumer is concerned. Is he governed by desire, or by income, or by demand?

Dr. Deutsch: He is governed by all these things. He will fulfill his desires to the extent he can. We all do that. Our desires are enormous—that is one of the characteristics of human beings.

Mr. OTTO: And advertising promotions enhance that?

Dr. DEUTSCH: Of course. For instance, I would like a Rolls Royce car, I think it is a wonderful car, but I cannot afford it; and the more they advertise them the more I think it is a wonderful car, but it does not help me at all.

Mr. OTTO: Do you think the average person has the same restraint?

Dr. DEUTSCH: I don't know. I think one has to exercise restraint. I do not think I am any different from the average person.

Mr. OTTO: In other words, if advertising promotion is successful—

Dr. DEUTSCH: It might cause me to make more effort, and then I get to the other side of the picture. I have heard people defend advertising, and I am not concerned at the moment whether they are right or wrong, this is a sociological question, but some are of the view that advertising increases desire, which it is intended to do. A fellow who becomes very desirous may go out and work harder. Perhaps his wife wants an automatic washing machine—she has seen it in a store operating with the soap suds, and the clothes come out white, and so on, and she tells her husband that she wants that machine; but perhaps he will tell her that he hasn't the money, that they are already in debt. Well, she may urge him to go out and work a little harder and may hound him long enough until she gets the washing machine. It that case you are raising the product, increasing the supply.

Mr. OTTO: Do you think that is the way it works?

Dr. DEUTSCH: It might in some cases. Let me put it this way. It may well be that our sensitivity to what we think about the good things in this world may cause us to put forward more effort, and that is not due only to advertising but to education in general. But if you increase your effort you get more output and have more to divide. There are differences in people. Some have more drive than others, and others more incentive, more desire to get certain things than others. If that can be stimulated perhaps that has an effect on supply. That is the way this works.

Mr. OTTO: So the ones who supply the goods, the manufacturers, and also promote demand, control supply and possibly a good proportion of the demand.

Dr. DEUTSCH: You cannot control demand unless you have some way of affecting the over all demand. Advertising may very much affect a particular thing. In other words, you may decide that instead of buying steaks you will buy hamburgers so that you can buy a television set. That kind of shift can go on inside overall demands. This is a different question. I am talking about the over-all level of demand.

Mr. OTTO: Recently I had part of a negotiation in a contract in which organized labour was concerned only with take home pay. They didn't care about income tax, deductions for pension plans, or anything else, as long as the take home pay satisfied their desires and demands. Now, most people take this point of view, and probably it is immaterial what you tax them and also immaterial how much your product costs or what the promotion for the advertising budget is. If they want something, if they want a certain standard of living they are going to get it, because of the strength they have. Now, how can you put these two together? You have said that demand in one field is still governed by income. In this case, where the wage earner knows he is getting a pension plan and is being taxed, he does not care. He wants take home pay in line with what he wants to purchase.

Dr. DEUTSCH: We all do that, that is natural; but in this case there is another factor, what can you afford to pay to him?

Mr. OTTO: Well, but he does not care.

Dr. DEUTSCH: I know, but that is your worry, not his, and if an inflationary situation exists you can afford to pay him a lot more. On the other hand, if an inflationary situation does not exist you cannot afford to pay him that much more. That is what happens. That is your business, not his. He is going to ask for what he can get, of course; and he is right—he must. If you sit down together and say, "Look, I can only do this, but if I do that I am finished," he might say, "In that case maybe . . ." This is collective bargaining. This is what it is. The danger enters, when there is such an inflationary situation and your prices are rising and your profit margin expanding, that you give in too much. That is how the inflationary cycle works. That is what I mean by overall demand. Overall demand has to be kept in such a way where these settlements are such as not to create a spiral of price raises. The basic demand policies are the ones that determine this mainly. If the basic demand policies are wrong, are too inflationary, you are in a position to give inflationary increases.

Mr. OTTO: And if I cannot?

Dr. DEUTSCH: And if you cannot you stop giving it.

Mr. OTTO: So I have to lay off my men, but the price does not fall off my goods.

Dr. DEUTSCH: I would like to see some prices drop, and they do in some cases. But I am particularly concerned that they should not go up in general. If they remain generally level, I will buy that. As long as the over-all is reasonably level, that is what we are trying to shoot at. If you look at the prices of durable goods, for example they have tended to come down in our index. But as long as you get reasonable stability over-all I will be reasonably satisfied.

Co-Chairman Mr. BASFORD: Dr. McGrand?

Senator MCGRAND: You mentioned about an hour ago that there was a tendency to lower profits and a lower productivity. What is the connection between the tendency to lower profits and the tendency to lower productivity? What I would like to know is when did a lower profit set in, because in the last financial report of most of the companies they recommend an increase in profits.

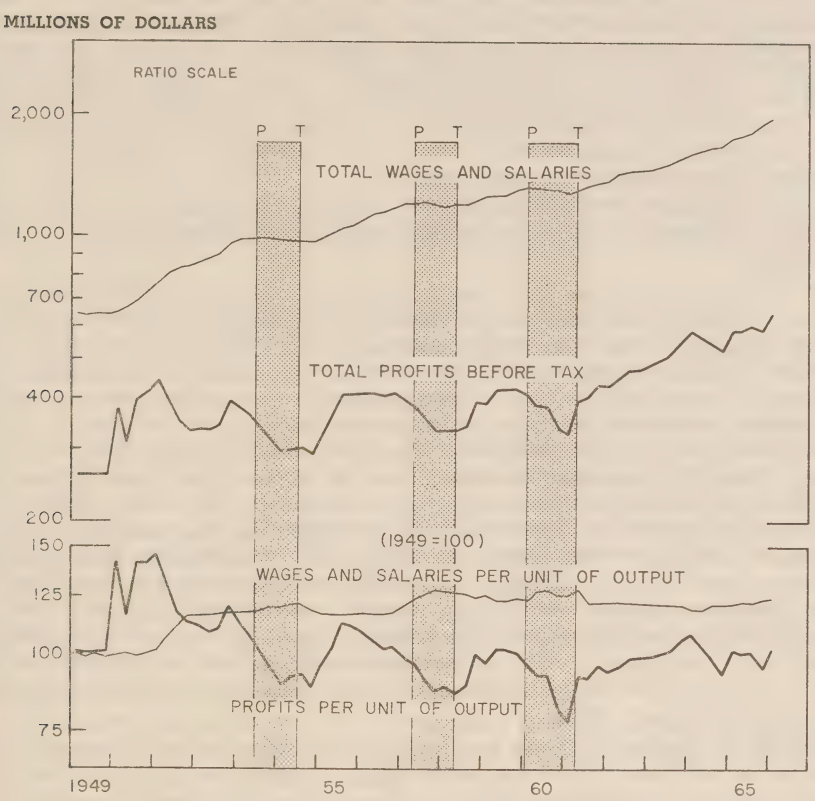
Dr. DEUTSCH: We must be clear as to what we are talking about. There are such things as profits in total and unit profits, which are profits per unit of output. If you use total figures, in the aggregate, they are not comparable.

On page 68 of our Third Annual Review is a chart referring to the manufacturing industry, and it shows what is happening to profits and wages and salaries per unit of output.

Prices, Productivity and Employment

CHART 3-2

PROFITS AND LABOUR INCOME IN MANUFACTURING



Note: **Seasonally adjusted quarterly data. The shaded areas denote recessions and the letters P and T denote peaks and troughs in the short-term Canadian business cycle.**

The top line of the chart shows that total salaries and wages have been rising. Profits are shown as having risen very rapidly after 1960, more sharply than wages or salaries. Then when you get to about "64" on the chart they start to flatten.

When you get on to 1966, they start to turn down, but wages are still rising. If you go down to the bottom of the chart, you will see what is called "Wages and Salaries per unit of output." This is a convenient way to calculate it. The costs of salaries and wages per unit of output are pretty flat, pretty stable. It is a very interesting point in our North American scene. They have been pretty stable. Recently, there has been a slight tendency to turn up, but not very striking, in this long term comparison.

Then you see "Profits per unit of Output". They have been rising since 1960. In the early part of the cycle they tend to rise faster than wages and at the end of the cycle they tend to go down. This is not an unusual thing. This is due to the fact that, as you get to the top of the cycle, the demand is heavy, and a little inflationary. Costs are rising and it turns profits down and the rate of productivity increase tends to go down.

Another thing, in this cycle business, is that when you get near the top of the cycle, productivity increases tend to fall off. Why is this? Usually, at that stage labour is scarce and becoming more scarce. You have to bring in less experienced labour, less skilled people, and the productivity tends to go down. This is natural.

In the early stages, when you are expending employment from a level of unemployment, you take the most skilled people first, and so on, and you get down to lower levels as you go on. As you get nearer the top, the demand goes up and fewer people are available. There are not enough skilled people to go round. One of the important things about this boom is that there are not enough skilled people to go round, so you try to use the less skilled people, and the rate of productivity increase tends to go down.

Senator McGRAND: What you mean is that this phenomenon of lower profits and lower productivity is not something that started in 1965, it was something building up?

Dr. DEUTSCH: You see that line there. I am talking about manufacturing industry here only. I use this because this is a very large and important industry, it is the industry where large fluctuations occur. There are the big service industries, but these are not in here, because our information for services is bad. That is why I was not able to use it. I am taking this particular industry, which is a very large one and one in which fluctuations take place.

This is not an untypical situation. You see profits rising in 1961, '62, '63, at any rate. From 1963 on, they tend to flatten off, as they get closer to the boom stage. When you get right close to the top of the boom, they really start to turn down—This is indicated here. This has the effect of checking the boom. A manufacturer may say: "My profits are going down, I had better be careful here about my plans, my financial plans, and so on", they start to pull their horns in and this has an influence in reducing pressure on demand. This is the way it works. You can stop this by pumping more demand in. You can expand monetary policy or run bigger deficits in government. But then you may get a price increase, if you do it at the wrong time, you start bidding up, prices rise, and you are into an inflationary cycle.

Senator McGRAND: At some time, you were discussing the shortage of food. Do you consider this is just a temporary thing, or is this explosion of population going to outrun the production of food? There must be a latent capacity in the world to produce a lot of food. What is the opinion of the people who have done so much work on this, such as the Food and Agriculture Organization? What do they feel about the capacity of the world to produce food—I do not mean this year or next year?

Dr. DEUTSCH: The longer period?

Senator McGRAND: Yes?

Dr. DEUTSCH: There is a great deal of concern in the minds of people such as the Food and Agriculture Organization and the United Nations about this situation which you raise. As you know, the population of the world is expected to double by the end of this century. This means that in almost one generation we are going to produce as many people in the world as we did in all previous history. This is a fantastic thing. FAO has been pointing to this development and saying that this will mean an enormous increase in the demand for food. They are concerned that we will have serious problems in feeding this population. Let me explain that. The main success in increasing food production has come in the developed countries. The underdeveloped countries have had relatively little success in expanding food production, but it is there that the main population increase will be. So, while there is capacity to produce food—a lot of people agree that the world in general has the capacity—it is unfortunate that it is distributed in the wrong way. The capacity seems to be mainly in the highly

developed countries, and other countries which have not been so developed have very little success in increasing food production quickly. That means we have a real problem in deciding how to get food to the people who need it.

One way is to enable the underdeveloped countries to be more successful in increasing their food production. Otherwise, the developed countries must make food available to them. Those are the possibilities. That is a very real problem.

Senator McGRAND: The reason I asked the question was that there is evidence which comes in that convinces me, or I am misinformed, that the production of meat products is going to be less over the years.

Dr. DEUTSCH: Less? I see.

Senator McGRAND: When you consider the amount of tonnage of vegetable matter that is used to produce so many pounds of meat—in the face of a growing food shortage, what is the tendency to switch, on a more or less permanent basis, to a more vegetable diet and the use of less animal products. That is why I want to ask the question.

Co-Chairman Mr. BASFORD: More people should eat B.C. salmon.

Dr. DEUTSCH: Undoubtedly, the place where the increasing demand will have a pretty pronounced effect is in the field of meat. In the developed countries, as incomes rise, they tend to spend more money on meat. Meat is also the most expensive thing to produce in the way of food. Therefore, there will be pressures on meats and dairy products and these pressures are likely to be high.

One way would be to use more food in vegetable form. It depends on what people want to do. They may chosse to pay the higher prices for meat, because they like it, and not use so many vegetables. It may be that the underdeveloped countries, which are not as well off as we are, may have to use more vegetables, if there is no other way of dealing with it.

The facts you mention are quite correct. There are more calories to be obtained at cheaper cost by using vegetables, if that is what people like to do, but they like meat, and may be willing to pay for it.

Senator McGRAND: It is a question of desire?

Dr. DEUTSCH: Yes, and of their willingness. One way would be, for people who need a great increase in food supplies, to have the increase in the form of vegetables and grains and things like that.

Co-Chairman Mr. BASFORD: There is also the problem of obtaining enough proteins.

Dr. DEUTSCH: Yes. Some vegetables are rich in protein, beans and things of this kind, if we want to use them. Meat is a very attractive form of protein and that is why it is so valuable.

Senator CARTER: We ought to launch a campaign for the eating of more fish.

Mr. WHELAN: This committee is studying the cost of food and many economists have given us figures showing that the productivity in agriculture has increased tremendously per man, probably more than any production. Do you feel that the Canadian consumer, the wage earner, pays too much of the amount of money, for food stuffs, compared to other countries?

Dr. DEUTSCH: Does he pay more, you mean?

Mr. WHELAN: Does he pay too much of his income towards the cost of food, compared to other countries?

Dr. DEUTSCH: I would not say so.

Mr. WHELAN: Would you say that, if agricultural productivity in Canada were not as high as it is, the consumer would be paying more for food?

Dr. DEUTSCH: I think so, yes. You are right. Agricultural productivity has risen very rapidly. The number of people needed in agriculture has dropped greatly because of that.

Mr. WHELAN: One of the things we are confronted with is whether a nation should try to maintain a cheap food policy. Do you think we should?

Dr. DEUTSCH: I am not sure what you mean by a cheap food policy. I am in favour of everything being cheaper. We all are. It is a matter of relativity, isn't it? Surely we should be prepared to pay enough for food to make sure we get the amount we need. That is the criterion, so it seems to me.

Mr. WHELAN: We notice that some segments of our society pay much more for food than others, and, of course, it would be impossible to erect different sections in stores for different categories of consumers. In other words, you could not have the $10,000 income earners shopping on one side of the store and the $6,000 earner shopping on the other side and the old pensioner shopping over in the corner. But, in regard to policy, could we not subsidize food production to the extent where there would be a tremendous supply of foods at all times? And at the same time could we not give the producer an economic return?

Dr. DEUTSCH: Where would you get the money for such a subsidy?

Mr. WHELAN: From the high income people.

Dr. DEUTSCH: You would tax them? That is a feasible program, yes. You can put a high tax on high incomes and use the resulting money to subsidize the lower income brakcets and help pay for their food. However, that is a political problem, if that is what you want to do.

Mr. WHELAN: It is a political problem, but is it economically feasible?

Dr. DEUTSCH: Oh, these things are economically feasible. On the other hand, you may get some repercussions, you know. If your taxes are too high, you may, for example, destroy incentives in some places. People may go elsewhere where taxes are lower. That would be especially true of the higher income brackets or the higher skilled workers, because they do not have to stay here. There is a worldwide shortage of such people. They can go elsewhere. If you are willing to accept that as part of the picture on a net balance of costs, it is a matter of sociological and political decision. It is a matter for you to decide. You can look into the direct economic repercussions and see if you want to have them or not. It is not for an economist to answer that question. It can be done. We did it before. We did it in war time. If that is what you want to do, if you wish to tax income in this way, you can do it. You would have certain economic repercussions. You might reduce incentives in certain areas. You might cause some people to leave the country. You might not have as many of these people to tax as you would want, because there are other places for them to go and so on. You have to accept the results. It is a matter of whether you want this or not.

Mr. WHELAN: In general, food production has to depend on weather elements and has to comply with market conditions. However, in the production of other material things, such as automobiles and television sets, the weather is of little concern and we can have overproduction, if the Lord is good to the producer. This generally benefits the consumer, though not in all instances.

Now, Mr. Allmand was asking how they can cut off production and live on unemployment, et cetera. However, automobile manufacturers do not lower the price, if they have overproduction. They simply cut down production until their products have been purchased.

You maintain that production, output per man, is the main thing in keeping our economy stable, but how can that be? One tremendous year in output of agricultural production throws the whole thing out of balance, does it not?

Dr. DEUTSCH: There are policies to deal with this kind of question, if that is your trouble. The system of floor prices is designed to deal with this problem.

Mr. WHELAN: I am sure you are aware, Dr. Deutsch, that in Canada we do not have this policy of floor prices that maintains the economic unity. Less of the national overall expenditure by the federal Government goes to agriculture than

in any other country in the free world. We spend a lot less per capita. Ours is infinitesimal alongside that of the United States. How can you say there is such a policy? I know there is not. In many instances farmers are going broke, and not because they are inefficient.

I can remember an economist in O.A.C. who suggested that inefficient farmers should be let go to become welfare cases if necessary. I suggest that we should simply call in "two-gun Ralph" to shoot them all. This would be most efficient. But what happened to the inefficient farmers at that time? The feed companies and packers took them over and made them more efficient than the so-called efficient farmers. They were turned into efficient producers.

Dr. DEUTSCH: Is that not a good thing?

Mr. WHELAN: In spite of what the economist said, it was not a good thing for the efficient farmers at that time, because they were put out of business by the company farms which were being operated by so-called inefficient farmers.

Dr. DEUTSCH: I do not know where we have got to now.

Co-Chairman Mr. BASFORD: I was coming to that myself. I was going to say, Mr. Whelan, that I was finding it difficult to follow your question.

Dr. DEUTSCH: I am sorry, I cannot get the question at all.

Mr. WHELAN: I realize that I am surrounded by economists, but I am trying to suggest that—

Co-Chairman Mr. BASFORD: Could you put it in question form?

Mr. WHELAN: I will get to that. Now, Mr. Chairman, Mrs. MacInnis asked for the leniency of the committee because her terminology would not be up to that of the highly educated people here. Mine will be up even less than hers, because I have less education than she. But what I am trying to say is that that economist told me that, if I could farm and exist on agriculture in 1952, I would be living in Eutopia. He went wrong some place.

Co-Chairman Mr. BASFORD: You went wrong. You entered Parliament.

Mr. WHELAN: I will agree that I should have got out of agriculture. These inefficient farmers were taken over and given proper management by Swift's and—

Dr. DEUTSCH: I am all in favour of more efficiency. If it helps them become efficient it may be excellent.

Mr. WHELAN: What is wrong with the Government developing a program of that type? There are many people who will become wards of the community on account of this present system. Are you in favour of that?

Dr. DEUTSCH: I am in favour of helping the inefficient farmer become efficient. The Government can do a good deal to help. I agree with this in terms of helping them improve their methods and their seeds and so on. There are perhaps many ways. The Government has long been doing this, and one of the great successes in agriculture in North America is precisely along this line. From an agricultural point of view we have been strongly successful in North America compared to any other part of the world.

Mr. WHELAN: You are using North America in your terminology, but the United States have many programs that are much farther advanced than ours.

Dr. DEUTSCH: I would agree that success has been even greater in the United States. There is great scope to help the small, so-called inefficient, producer who is now under pressure because technology is running against him in so many ways. How to adapt it to the family farm is a very important question, and how to do it more effectively. This would help us in our food production and give us adequate supplies of food.

The council says in a section on food prices that one of the things that should get attention is precisely the point you are raising, sir, that we must give

attention to this very question of making the technology available to the farmer more effectively. The more we can do this the easier we will solve our problems and the more we will help the farmer and the consumer.

Mr. WHELAN: At any rate, in the high cost of food some of this money was spent helping the so-called inefficient people become efficient producers.

Dr. DEUTSCH: That is the best way, I agree with you.

Mr. WHELAN: On another point, the head of the Bank of Canada said that too many Canadians are living beyond their means. Do you agree with him on that?

Dr. DEUTSCH: Did he say that?

Mr. WHELAN: I was not here when he talked, but I read some newspaper accounts and got the gist of it from them. Perhaps the newspaper accounts are completely different from what the man said.

Dr. DEUTSCH: I am not familiar with the present governor having said that. Are you referring to the present governor or the governor who preceded him?

Mr. WHELAN: I am referring to the present head of the Bank of Canada.

Dr. DEUTSCH: I am not aware of this.

Mr. WHELAN: I understood that that was what he said, and I just wondered about it.

Dr. DEUTSCH: The present governor is not in the habit of making such moral judgments.

Mr. WHELAN: Then, in your own opinion, Doctor, do you think too many Canadian are living above and beyond their means?

Dr. DEUTSCH: If you are saying that we have too much demand on the economy, that is, that we are trying to get more out of the economy than we are putting into it, then, yes, we have at times been living beyond our means in that sense. We may have been trying to get more out than we are putting in. But at the present time, as we say, there has been a tendency to flatten out in the economy. At the present time we are in a delicately balanced position and we may be going down, or we may flatten out. If that is the case, then we may be getting increasingly away from living beyond our means in that sense.

On the other hand, if we go back some months, there were signs that we were trying to get more out of the economy than was in it, and that caused prices to increase. The situation has moderated since then, but you are asking me about now. There is not much evidence of overheated pressure than there was some time back.

Co-Chairman Mr. BASFORD: Is that a delicately balanced moral judgment?

Dr. DEUTSCH: It is not a moral judgment at all. I am asking whether we are trying to get more out of the economy than we are putting into it. Are individual people getting more material goods than they should have? Is that a moral judgment or not? Instead of putting two cars in a garage, should they buy a piece of sculpture? I do not know; that is a moral judgment.

Mr. WHELAN: Should they buy two cars or invest money is such a body as the Canada Development Corporation for the good of the country?

Dr. DEUTSCH: You are asking, should they spend less money? That is, in a sense, a question of desire on the part of the people: how do they want to live? Do they want to have more savings or more cars in their garage? That is a matter of freedom of choice in our society. You can influence that in a number of ways by policies. If the Government decides the country should have more savings because it is a good thing to have more savings, there are certain things you can do. The Government could follow policies which increase people's interest in savings—produce better savings bonds and all that sort of thing.

Senator COOK: Put the mortgage rate up!

Dr. DEUTSCH: You can do these things if it is good public policy.

Mr. WHELAN: You are talking about advertising. This creates the thought in people's minds that they should have things. A certain part of our society has two cars, $50,000 or $100,000-homes, and communications are such today that the ordinary person in the lower income groups realizes this and has the desire to have these things. They create this line of thought.

Dr. DEUTSCH: Yes.

Mr. WHELAN: Why would a Crown corporation specifically create the thought that people should have things—like the C.B.C. did with coloured television?

Dr. DEUTSCH: I do not know what you mean.

Mr. WHELAN: The C.B.C. created coloured television, and created a demand for coloured television sets.

Dr. DEUTSCH: This is a matter of Government decision, as I understand. Government decided that the C.B.C. should have the money to do it.

Mr. WHELAN: From what I know of the Government making decisions, I think it is a Crown corporation decision and the Government puts their stamp on it.

Dr. DEUTSCH: The Government has the money. I can desire a Rolls Royce but cannot afford it, and until somebody gives me the money I cannot buy it. If the Government had not agreed to spending money on developing television they could not have done it. If you do not want them to do it, tell them they cannot have the money, and that is that.

Mr. WHELAN: If they had not created coloured television—

Dr. DEUTSCH: If we had not invented television, we would not have it, is that what you say?

Mr. WHELAN: No, not at all; that is not at all what I am saying. There are practical things on which to expend money, but the expenditures on coloured television are, as far as I am concerned, on a completely impractical thing.

Dr. DEUTSCH: The only way to stop it, senator—

Mr. WHELAN: On a point of privilege, Mr. Chairman, I am not a senator.

Dr. DEUTSCH: I am sorry, sir. The question is that a decision has to be made whether you are going to put resources into this thing. It is in Government's hands to make that decision. You can desire anything. I used to be Secretary of the Treasury Board; I can tell you that is quite a job. Departments had unlimited ideas on what they desired to do, but it is the Government that has to say, "Resources are available for this, that and that."

Mr. WHELAN: I have only been a member of Parliament for four years and in public life for 21 years. As far as what the Government has to say about what a department decides is proper, the department slams it before a minister for his okay, as far as I am concerned. It is almost fantastic for him to say it is Government policy. It is okayed by his top officials, and he accepts it.

Dr. DEUTSCH: That is not my concept of Government. Mine is that the Government makes decisions. Civil servants may make proposals and suggestions on all kinds of things, but it is the responsibility of the Government to make decisions. That is my concept of democracy.

Mr. WHELAN: Do you mean the Cabinet?

Co-Chairman Mr. BASFORD: Mr. Whelan, I think the concept of Government is a little off the point at this stage.

Mr. WHELAN: It has a great deal to do with our cost of living, and it is the policies that are so-called initiated by Government that have a certain amount of

effect on our cost of living, according to many financial writers and everybody else.

My understanding is that as a member of Parliament I do not have a hell of a lot to do with any of these policies that are initiated. I am constitutionally part of the Government, but I do not have much to do with most decisions that are made.

Co-Chairman Mr. BASFORD: I have something of a problem I want to put to you. Dr. Deutsch has been slated to address us this morning and also this afternoon. This, I think, is a pretty long and hard session for him. I have four names still on the list. I do not know whether it is the desire of the committee to try to finish up this morning and possibly have Dr. Deutsch back at a later date when we have had other evidence, or to have a session this afternoon.

Dr. DEUTSCH: I am entirely at your disposal. Whatever is your convenience, I would be glad to do.

Co-Chairman Mr. BASFORD: Thank you very much.

I do not know how many people there are who want to ask questions.

Mr. SCOTT (*Danforth*): It seems that as we go along more and more people think of more and more questions. Dr. Deutsch has been on the stand a long time. Why could we not adjourn, give him a decent lunch hour, and then come back?

Co-Chairman Mr. BASFORD: Fine, if that is agreeable to the committee. That would give us a good session this afternoon, I would think.

Mr. SCOTT (*Danforth*): And it would give us time to digest all the information.

Co-Chairman Mr. BASFORD: Fine. If it is the consensus of the meeting, which I feel it is, we will adjourn now until 3 o'clock this afternoon.

Hon. MEMBERS: Agreed.

The committee adjourned until 3 p.m.

THURSDAY, November 24, 1966.

Upon resuming at 3:15 p.m.

Co-Chairman Mr. BASFORD: Members of the committee, will you please come to order. The first to ask a question, according to my list, is Mr. Scott.

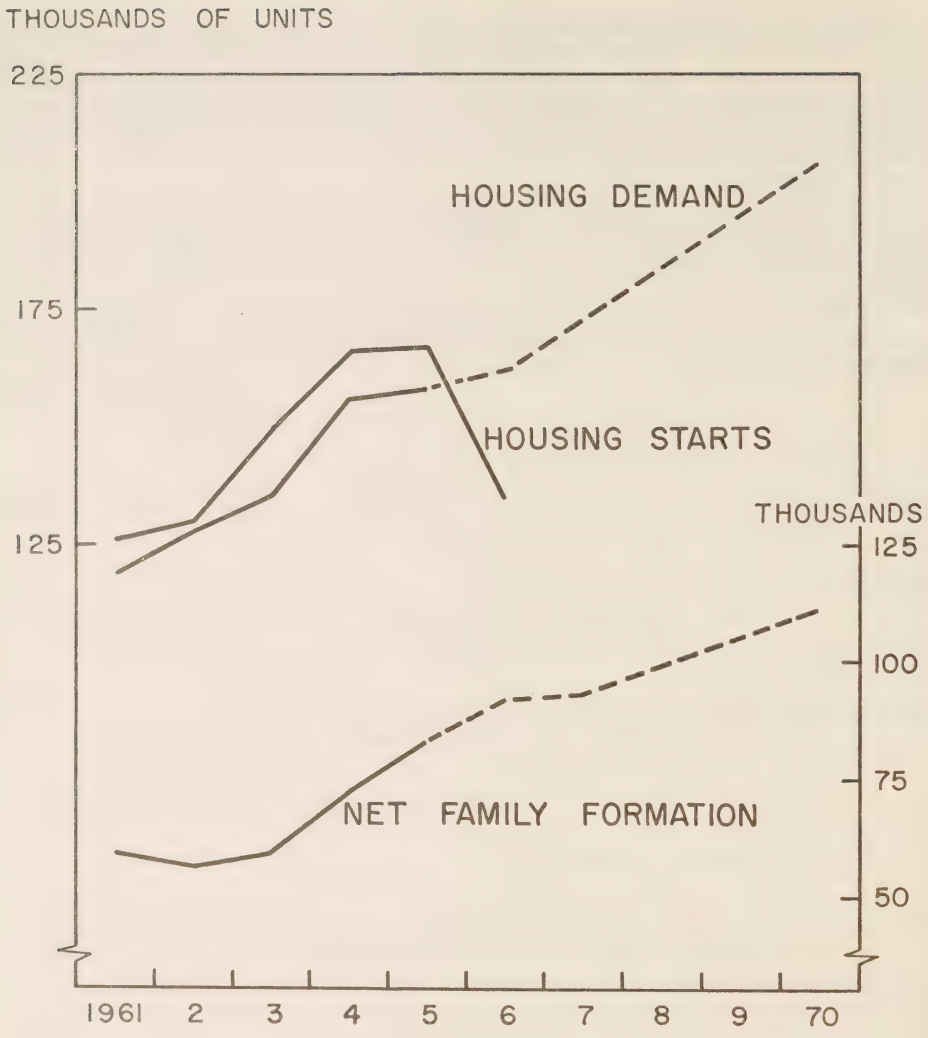
Mr. SCOTT (*Danforth*): In the discussion this morning you were telling us about certain factors that indicate to you a levelling off, and one of those that you mentioned was housing. I am intrigued by the section of your Council's report dealing with this, and on reading it through it seems to me that you lay stress on the fact that over a period of time the policies of the various governments, no matter at which level they are, had tended to aggravate in many cases the instability in the construction industry rather than help it. Could you enlarge on that a little bit?

Dr. DEUTSCH: I would like to start, Mr. Scott, by saying that housing, and other kinds of investment, have not behaved in the same way. It has been typically the case in a period of expansion that general construction and investment go up steeply, and as the demand for credit gets greater and interest rates rise, housing begins to fall off, because one of the places where tighter money normally strikes first is housing. It strikes at housing more than anywhere else. Conversely, when you get to soft money. This means that the housing industry and the construction industry are unstable. They go up and down quite sharply. In some ways, housing does act partly as a counter-cyclical influence to other investment, but only partly. I think that this is because the labour used in housing is not fully substitutable for labour in other kinds of construction.

The Council feels that housing is used too extensively in this way. It should be carried forward on a more stable basis, especially in the years ahead, because in the next five or ten years we will have a very rapid increase in the number of family formations in this country, and we will need a great many more dwellings. The curve rises very steeply. Therefore, we should have a policy which will foresee this requirement, and this means we have got to see a steady growth in housing in the years ahead.

In the present boom there has been, in the past year, a very steep falling off in housing. We are concerned that this is going to build up into a very serious problem a year or two from now—if it is not already a serious problem in some cases.

I do not know whether you can see this chart. It compares housing demand and family formation from 1961 to 1970, and actual housing starts from 1961 to 1966.



Note: "HOUSING DEMAND" includes net family formation, new nonfamily households, an allowance for a small rise in vacancies, an estimate for replacements of housing units due to various causes and a small adjustment factor.

Source: Estimates by the Economic Council of Canada and actual data taken from Canadian Housing Statistics.

This chart will show you why we are getting anxious about this. This line here is the requirement for housing as we projected it in our first annual review. You will see there that we projected ahead the requirement for housing, and this

line represents that requirement until 1970. This line is the rate of family formations. It is down here. It is an important factor in this large demand for housing. The red line shows what has been happening to housing starts. This is what it looks like. These are the housing starts. The completions are going to be away down here, and the demand is away up here. If this keeps on we are going to get into a very serious box.

There is a lag in this housing business. Even if you started immediately to loosen up it takes a little while before you get your results.

Mr. SCOTT (*Danforth*): How long—six months?

Dr. DEUTSCH: From six months to a year. I was talking to a person in the States the other day who had been looking at the housing industry. He told me that down there they work on the basis that when funds are freed it takes about a year before you begin to get significant results. There is a serious lag here too. So, if you are getting this kind of a situation you can see the difficulties ahead.

We are concerned about this for a number of reasons. One is that first of all, people need housing and, secondly, if this shortage persists you can get sharp increases in prices and rents, and these have a considerable effect on the cost of living. This is a matter with which we are supposed to be concerned.

Mr. SCOTT (*Danforth*): In the Council's report you make a suggestion—and I think it is an excellent one, and I want to ask you about it—when you talk about the need for greater stability. After that you talk about effectively co-ordinated government programs. I suppose you mean federal and provincial co-ordination. This is quite understandable, and I wonder if you have any suggestion to make as to initiatives in this regard.

Dr. DEUTSCH: Initiatives? You will notice that we suggest, first of all, there should be preparation for this kind of co-ordination—preparation consisting largely of adequate analyses, information about the state of the economy and trends that are operating, and the sort of problems that are arising that governments have to deal with. We are suggesting that some new efforts be made in providing more adequate information and analyses. We are suggesting that the Government's white paper for the budget should come out earlier—possibly, in the fall. We suggest that statements about the state of the economy, and any predictions they wish to make, and the Council's report, and some surveys as to the investment outlook should be undertaken earlier. We suggest that we should have available further assessments of economic trends which will result from this new institute that we recommend should be set up. All of this material should be the basis of a regular study between the various governments of Canada meeting in the late autumn in order to discuss the economic situation and to plan their objectives for the year ahead in the light of all this information.

A good deal of the initiative here will have to come from the federal government. They should be the ones who first of all get this work done and, secondly, take the initiative in arranging the meetings and so on.

I would hope too as a result of this we would try to plan our programs a little further ahead—not just one year ahead at a time, but much longer ahead in the future in the area of investment, the area of government and capital expenditures particularly, and also in the area of current government expenditures. We should try to plan them longer ahead in the future at both the provincial and federal levels. This should be done in order to try to work out programs for longer periods ahead, and to plan them more carefully in an endavour to take out some of the swings, which in the past have contributed to the instability.

I realize there are certain problems here, but I think we need to work on them. There are many government buildings, for instance, that do not have to be built at a particular time, but we know that they are going to be needed at some

time. We know that schools are required for some period ahead. We know that many public facilities are needed. We can see ahead pretty much what is required for some years, and we can draw up longer range programs to deal with them. This would help a great deal, I think, in taking out some of the instability in the system.

Mr. Scott (*Danforth*): Perhaps I could switch the subject for a moment and ask you about something else. This morning you were telling us about increasing supply and curtailing demand. You said that there were the main leverages. When Mr. Rasminsky made a speech in Rome this month—no doubt you have seen it?

Dr. Deutsch: Yes.

Mr. Scott (*Danforth*): In that speech he talked about the two factors you mentioned, but in the last paragraph he said:

> But the experience of many countries suggests that monetary and fiscal policies need to be supported by some technique which mobilizes the force of public opinion behind non-inflationary behaviour by those who are in a position to deploy strong market power.

Can you comment on that? Have you given that any consideration as a technique over and above the straight fiscal and monetary measures you are talking about?

Dr. Deutsch: Well, the Governor was not very precise when he said there is a need for policies in addition to demand policies. We agree, of course. We say in our report that the most important policies are the overall demand policies. We have fiscal and monetary policies, but alone they are not enough. To get a good performance you have to have complementary and supporting policies as well. We have said the same thing in our report. We go on to spell out what we mean by those complementary and supporting policies, and we discuss them. They have to do, with the supply side, with the planning of government programs of expenditure, and all those things that may work as complementary policies.

We point out also that you have to have a lot better public information and public understanding. You cannot pursue policies which are not understood by the public. The public has to understand why you are doing it. There are various techniques for bringing this about. One of the useful things about an incomes policy is that it has helped in this education process. The incomes policies of a number of countries have had a useful result, I think, from that point of view. They set off discussion and they result in a certain amount of public information and education. In them is an appeal to the public to exercise reasonable restraint. That is all very good, and that is the best part of an incomes policy. It is really the only thing of value in them that we can see.

The Council, in its report, is saying: Yes, we agree, and we suggest better uses of programs to inform the public as to what is going on. The Council, therefore, has a whole section in this area. For instance, we need a great deal more information, better information, more analysis and research. We are suggesting the setting up a new institute for this purpose. We are saying that all this material should be published and that in the autumn there should be what we call an open season for discussion on the state of the economy, jointly, with governments as they are preparing their programs for the following year.

We also suggest that a joint committee of the Senate and House of Commons be set up to deal with it the same way as they do in the Congress of the United States. That might be a good way to obtain much more public understanding of what the economy is doing and what the authorities are trying to do and why it has to be done. This is the way in which we could get this public education and participation which we want.

Mr. Scott (*Danforth*): Mr. Rasminsky in his speech said that in the supply and demand approach the basic underlying assumption is competition. Of course,

we know that this is not always the case, such as in the transportation industry in Ontario, where there is no competition and the unions are able to sit down and dictate, as it were, what is to be done. In your judgment, how widespread is this in its effect on the whole price wage problem in Canada, and if so what sort of technique other than the sledgehammer one, which you mentioned this morning, might be available to deal with it?

Dr. DEUTSCH: Here you are covering a lot of ground. You have in the economy certain areas where there are actual monopolies and competion is not effective. We have evolved a method of dealing with this in the case of public utilities, for example. This is a well understood and accepted procedure. Where you have an absolute monopoly you cannot rely on competition to deal with it and you must have regulations to deal with the problem.

There are other areas which are not public utilities but which are monopolies for some reason or other, or exercise excessive market power. There again you have special problems, and we also have policies to deal with these, such as our anti-combines legislation, and so on. Whether these are adequate or not is a question. This is a continuing problem, how to deal with natural monopolies, monopolies of the ordinary kind or excessive market power. These problems are with us all the time, and you have to deal with them from the long run point of view. They are not particularly a cyclical problem. In fact, there is as much evidence one way as the other that they are a factor in price rises or in greater stability. There is no general evidence pointing one way or the other. It is a problem with which we have to deal from a long run point of view. How do you deal with a situation when there are monopolies, excessive market power, and what kind of regulatory controlling systems should you see? There are many approaches to this. We have one in Canada as the result of the particular development in our constitutional system. Have we the best system, adequate for the present day? I do not know. That is something for our next study. What is the best way to deal with these matters? That is not a problem occurring during a boom only, but one that is with us all the time.

Mr. SCOTT (*Danforth*): You feel that is an area in which the Government has a role?

Dr. DEUTSCH: Yes, the Government has a role here, absolutely.

Mr. SCOTT (*Danforth*): In this general area?

Dr. DEUTSCH: Yes, where competition is not effective. Our marketing system relies basically on the workings of the market and supply and demand in competition to protect the consumer. That is the basic element of our system. However, it does not work in every place, and that is where the trouble comes. In a number of places you can improve the way the competitive system works to protect the consumer.

Our theory is that our system is the one which is giving the best results, in which the consumer generally has freedom, and in which people have considerable freedom to choose their work, and we are able to buy what we want, and if it works well it is a sort of basic economic democracy. However, unfortunately, it does not always work, and where it cannot be made to work well other policies are necessary. There are areas like these where the system does not work well, and does not do what it is supposed to do, and that is where we may have to have another policy, and the Government has a role to play.

It is necessary to pay attention to that today. It applies to public utilities. How are you to regulate them? How are we to deal with monopolies and excessive power to prevent their abuses? There are many such questions of public policy that do not apply to any particular year, but that are with us all the time. How are we to deal with collective bargaining, let us say, in certain

monopoly situations, natural monopolies such as public utilities and essential public services? It is a real problem.

When you have essential public services where the ordinary results of collective bargaining may produce very great difficulty, perhaps, special public policy is needed.

Different countries have had different approaches to these problems. For instance, in Sweden, a country very sophisticated in these matters, even the private collective bargaining parties have an understanding that they will try to avoid strikes in the essential public services; that is the way they deal with it. They have an arbitration procedure to deal with cases of essential public services. They call it the protection of third parties. Both the employers and workers organizations agree there are certain areas involving the protection of third parties and they have an understanding of what these are and they try to avoid strikes in those areas.

Some other countries may have other approaches. Where the system does not work you must have public policies. In this country, too, we may have to evolve certain approaches.

Mr. SCOTT (*Danforth*): In your judgment, do we presently have the kind of statistical gathering facilities to pinpoint these inadequacies?

Dr. DEUTSCH: Not adequately. We have not such good information as we should have. Again, we have a lot to say about that. We need better information, more economic research and more social research. We have had relatively little of these in this country, as you know, except what is done from time to time in connection with royal commissions, and such like; but in regard to the whole area of social science research we are badly lacking compared to many other countries, and we are suggesting that we should be putting more effort into this so that we can get better understanding of some of these things where we have special problems.

Mr. SCOTT (*Danforth*): Thank you. I may have other questions, but I will defer them now.

Co-Chairman Mr. BASFORD: Senator Inman?

Senator INMAN: Dr. Deutsch, I notice that the price of very many staple foods is higher in Canada than in the United States. I was in the United States myself this fall, and I noticed that lamb was cheaper, and also bacon, and most staple canned goods. I would like your comment or explanation of this. First of all, wages are higher in the United States.

Dr. DEUTSCH: Yes. Well, honourable senator, first of all, one must remember that the Canadian dollar has not the same value as the American dollar at present, that our exchange rate is at a discount, so when comparing prices across the border you have to make an adjustment for that difference of 7½ per cent. On that basis alone I would expect to see differences in prices.

Another thing is that many of these items have tariffs applied to them, and if you tried to bring them back to Canada you would have to pay duty, and that would put the price up as against the United States. That does not of course apply to all goods; but fruit and vegetables, for instance, at certain times of the season have tariffs on them, as have chickens and many other hings. The duty is designed to protect and so it may have the effect at times of raising the price. That is the point of the exercise, to prevent the cheaper product from coming in. Therefore, you should not be surprised to get differences in price.

Co-Chairman Mr. BASFORD: The committee has learned that there is, for example, a half cent a pound duty on bananas and, in spite of the fact that I come from Vancouver, I am not aware of the Canadian banana industry.

Dr. DEUTSCH: Do not ask me why the tariffs are there. I am just pointing out the fact.

Mr. WHELAN: To foster the apple production. The British Columbia apples are more nutritious than bananas.

Dr. DEUTSCH: At one time we had a tariff on oranges and when I was in the Finance Department I asked: "Why do we have a tariff on oranges?". We found someone who said it is to protect the apple producers, by making oranges more expensive.

Why these tariffs are there, I do not know in every case. In some cases I think they were put there deliberately to provide some measure of protection to the producers and enable them to sell at a higher price. In many of the fields of fruit and vegetables our growing conditions are not as good as those south of the line. It is more expensive for us in some cases so the tariff is used to protect them.

Senator INMAN: I was thinking about canned goods.

Dr. DEUTSCH: I believe there is a tariff on many canned goods also.

Senator INMAN: The canned goods we do not import, but they seem to be more expensive than those down there.

Dr. DEUTSCH: There is a tariff on most canned goods. That means that the imports rise in cost and by the time you bring them in you raise the price.

Senator INMAN: I am not speaking of the imports, I am speaking of those we process here in Canada.

Dr. DEUTSCH: The fact that imports are more expensive makes it possible for those here to raise the price. This is the purpose of the exercise. The purpose of the tariff is not to provide a higher cost of import: the purpose of the tariff is to raise the internal price.

Mr. WHELAN: You are saying there is an import duty on canned produce. That is not true in all cases.

Dr. DEUTSCH: No. I said "some".

Mr. WHELAN: We are importing quite a lot of canned tomatoes from Rumania, Portugal, Italy, cheaper than they can be produced here. We are importing peaches from Australia and the producer in Australia does not get as much as we get, but the consumers do not get the break of the cheap markets.

Dr. DEUTSCH: The tariff is pretty complicated, because you have different rates for different countries. We have preferential rates which favour some of the British Commonwealth countries. This is a case in point. There is a tariff on canned fruit from the United States—if you are talking about Niagara Falls.

Mr. WHELAN: These tariffs are infinitesimal alongside the protective tariffs that industry enjoys.

Dr. DEUTSCH: They vary, as in the case of industry—some are high and some are low. Some are very small tariffs, others are quite considerable.

Mr. WHELAN: Most of our vegetable producing industries in Canada, and canning industries, pay higher union wages than they do in the United States.

Dr. DEUTSCH: That could be.

Mr. WHELAN: I know it is a fact.

Dr. DEUTSCH: They use Mexican labour there, in some places and it might be cheaper; but the purpose of the operation is precisely to raise the domestic price. Otherwise, there is no point in the exercise.

Senator INMAN: That is all, thank you.

Mr. MCCUTCHEON: I was very interested in your comment on federal-provincial conferences to climb ahead on the economic outlook, et cetera. Do you envisage that, at these conferences, a frank and open discussion should take place of the priority needs in all phases of Government spending, etc.?

Dr. DEUTSCH: I would think so. I would hope so. If there is not enough to go around already, if there is too much demand on the economy, and if we are trying to do some other things, we have got to get down to priorities and ask: "What is more important than something else?" I hoped they would discuss this. At the present time you may have a high priority in housing. You discuss that and see what it means in terms of making more resources available for housing, as against something else, if there is too much demand already. If there is not overloading of demand, it may not prove to be a problem; but they may very well be confronted with discussing priorities.

Mr. MCCUTCHEON: I think the agricultural expert mentioned coloured television this morning. In your remarks to him in reply, you said something about a man being forced to work a little harder and earn a little more money, to get it.

Dr. DEUTSCH: Someone asked what advertising does. I said that if a man wants something badly enough and knows it will cost him money, he may decide to make a bigger effort, so as to get what he wants. This is one way suggested of meeting the problem.

Mr. MCCUTCHEON: You went further in that regard by pointing out that, through that extra effort we would enjoy extra productivity in the country.

Dr. DEUTSCH: You might.

Mr. MCCUTCHEON: In conversation with people through the country, one thing I found was the lack of initiative, the destruction of the desire to get it and to make more money. We have gone so far down the line towards the welfare state that the individual initiative to get out and do these extra things is missing. With that attitude, how are we going to increase productivity?

Dr. DEUTSCH: Is this your statement, or your conclusion about what the attitude is?

Mr. MCCUTCHEON: Yes.

Dr. DEUTSCH: I just want to make sure that that is not necessarily my view.

Mr. MCCUTCHEON: I still do not want you to get the impression that it is necessarily my view. I am merely reporting to you what people tell me. I would like your comments on that. I do not know what to tell them.

Dr. DEUTSCH: My own view is that I do not think this has been proven at all.

Mr. MCCUTCHEON: Would you elaborate?

Dr. DEUTSCH: This has been said for two thousand years, if you study economic history. This is one of those bland statements easily made. You can make generalizations about these things. Of course, incentives are important and you do not do things unnecessarily to take away people's incentives because incentives and attitudes are important.

You are looking after essential social needs of the people who must live. Health, clothing, and so on, are the essential needs of livelihood. Because you do that, particularly for people who are not able to do it for themselves—perhaps because of some reason for which they are not responsible—that that in itself results in loss of incentives—I do not see the connection.

On the other hand, if you say "We will pay you more if you do not work than if you do work", that is a different question. I do not think that is what is involved here.

On the sheer basis of what would be reasonable and adequate social security, I do not think it has been proven that that does in fact blunt incentive. If you look around the world, the countries with good systems of social security are not necessarily the countries with the lowest productivity or the with least improvements in productivity. Some of the best social systems are in countries which also have the highest levels of productivity increase.

Mr. McCutcheon: What about the taxation level?

Dr. Deutsch: As I said earlier, again it is not so much the general level of taxation but the way it hits increases in income, that may be important. If the marginal rates are too high, that could have an important effect especially if people have alternatives.

Mr. McCutcheon: We have witnesses before us and on Tuesday I believe—I am speaking from memory—these percentages I gave were mentioned. It seemed to me, if my memory serves me aright, that from 1961 to 1965 there was a 27 per cent increase in income to producers, roughly 30 per cent to processors, and 30 to 35 per cent to retailers. I may be out a percentage point or two in those figures, because I am recalling them from memory. Now, on page 245, in the chart on the level and disparity of personal income per capita, the level in Canada for 1961 was $1,573. The figure for 1965 was $1,983, which is an increase of roughtly 26 per cent. Does this figure cover all of the population, including pensioners and so on? Does it include the entire group?

Dr. Deutsch: That covers all the personal income averages.

Mr. McCutcheon: Further to that, do you have any figures on the relative increase for people who are covered under working contracts, such as union people and so on?

Dr. Deutsch: No.

Mr. McCutcheon: You do not have that separately?

Dr. Deutsch: No.

Co-Chairman Mr. Basford: That would be a table on the level and disparity of wages and salaries rather than income per capita?

Mr. McCutcheon: Would it?

Co-Chairman Mr. Basford: I was asking you if that is what you wanted.

Mr. McCutcheon: I don't know. Would it?

Dr. Deutsch: As far as I know it is not possible to get information of that kind. We just do not have it.

Mr. McCutcheon: I see. Then my conclusion from this is that income, while it has come along relatively close, has not increased as much as the retailers' mark-up or profit has increased in this five-year period. What we are trying to find out is the cause of this terrible situation where money just does not go around. Should wages be raised higher than they have been? Or should the retailers be cut back a little?

Dr. Deutsch: First of all the general increase in levels of income has, as far as I know, on the average, risen faster than the cost of living. This is so. I do not quite know what you are getting at. The average income per person or the average level of salaries and wages, if you like, has been rising faster than the cost of living every year for the last five years. That is a matter of simple statistical fact.

Mr. McCutcheon: I would like you to be more specific on that, because information that D.B.S. gave us the other day does not bear that out.

Dr. Deutsch: You must have misinterpreted their information, sir, because the cost of living increases have been 2 per cent to 4 per cent over the past five or six years. It is now running around 4 per cent. It was around 2 per cent before. The average level of wages and salaries is rising more than that. Every year it has risen by more than that.

Mr. Whelan: So wages have kept ahead of the cost of living.

Dr. Deutsch: Yes, on the average.

Mrs. MacInnis: Has there been any change in wage earners or salary earners relative to non-wage earners over that period?

Dr. DEUTSCH: There is a tendency for some salaries to rise relatively over the long run. Whether that is true of the last year or two, I do not know. This sort of thing changes from year to year. Just looking at this chart I have in my hand, you will notice that salaries run up here and wages run down here, but they run very close together.

Mrs. MACINNIS: What I am trying to get at is, if you average it in a lump, maybe it has been the same over the whole period. What Mr. McCutcheon is getting at is that there have perhaps been some differences inside.

Dr. DEUTSCH: Yes.

Mrs. MACINNIS: That have borne more heavily on certain groups than on others.

Dr. DEUTSCH: Yes. I was quite clear to talk about averages, because you can find specific cases about anything under the sun, if you want to. You can prove anything in this way. But we must talk about something comprehensible, you see. On the average, salaries and wages have risen faster than the cost of living. That is just a simple statement of fact.

Mrs. MACINNIS: But it is not incomprehensible at all, Dr. Deutsch, to try to break down the averages. If you talk about average wages and salaries for the whole country, or first about an average rise in prices for the whole country, that is one thing, but we are trying to find out if there have been shifts within the average. Rises in the cost of living do not hurt everybody in the same way.

Dr. DEUTSCH: We were talking about that this morning. I emphasized quite clearly that, when the cost of living goes up, certain segments of society are hurt more than others. The fact that wages have risen more rapidly is not a satisfactory answer. That does not satisfy me, and I explained why this morning. I was very careful to point out that we are interested in maintaining reasonable stability in prices because, when prices begin to rise, they hit certain people more severely than others. I pointed this out this morning. It causes us concern because people on fixed incomes, or old people, weak people and minimum wage earners cannot maintain their earnings. Very often they do not, at any rate. Therefore, it is important to try to achieve at least some reasonable price stability. It is important to try to avoid that kind of inequity.

We discussed all this this morning. It is not a satisfactory answer to say that wages and salaries are rising more rapidly, because it does not meet this problem. We have a separate goal to deal with this question. We have a specific goal about trying to maintain reasonable price stability in order to deal more easily and equitably wtih that kind of question as well as with other problems.

If you are talking about the whole position, making a big generalization, then on the average wages have been rising more rapidly than the cost of living.

Mr. MCCUTCHEON: Just looking at your chart on page 227, what part, if any, do Government programs play in the comparison of labour costs and corporate profits per unit of output in manufacturing between Canada and the United States? I think it is a well-known fact that we are probably more advanced in welfare legislation. We are very security conscious people, whereas the Americans are known to be gamblers et cetera. Does this enter into the picture in any way, shape or form?

Dr. DEUTSCH: You are pointing, Mr. McCutcheon, to what differences here? I am not quite clear on the question.

Mr. MCCUTCHEON: It is the productivity rate in labour that I am interested in.

Dr. DEUTSCH: The productivity of labour.

Mr. MCCUTCHEON: Yes.

Dr. DEUTSCH: On the average again, and I am trying to talk about some generalization that one can use, on the average, as you know, our level of productivity is about 20 per cent less than that of the United States.

Mr. MCCUTCHEON: Why?

Dr. DEUTSCH: There are many reasons for that.

Mr. MCCUTCHEON: What is the most important reason, Dr. Deutsch?

Dr. DEUTSCH: Well, there are two or three fairly important reasons. One is that, generally speaking, our scales of production are smaller. We have smaller scales and less specialization, which makes us less efficient. They have got much longer runs and more specialization, they have bigger units of operation, and these things make it possible for them to be somewhat more efficient. This is one factor.

Another factor is that their general level of skill and training appears to be higher than ours. This is a very important matter nowadays. The educational level of their population is significantly higher than ours. This also has a bearing on productivity. That is another factor.

Then there are certain overheads here, because we have a very small population in a very large country. Our social overheads appear to be higher. We have to use more overhead costs in many cases. This is because of our climate and our great distances in relation to our small population. This comprises another factor. There are other reasons. There is a whole series of things of this sort.

Co-Chairman Mr. BASFORD: I have a supplementary. To what extent is our tarriff policy protecting the efficiency of industry?

Dr. DEUTSCH: Well, again, our scales of output, in many cases, are smaller; our specialization is less; and the tariff policies do have some part to play in this. The tariff has been designed in many cases to bring industry into Canada and to operate on a smaller scale in relation to the Canadian market. The tariff was put there to make that possible. This has had an effect on the scales we use. All these factors contribute to a somewhat lower level of productivity. There may be other things too, but I think these are some of the main ones that bring about this difference. It is pretty hard to measure exactly how much each contributes, but we know all these things play a part.

Mr. MCCUTCHEON: Just one more question, and I refer to the question of Senator Inman about the prices in chain stores in Niagara Falls, New York and Niagara Falls, Ontario.

Previous witnesses here have indicated to us that chain store profits in the United States, expressed as a percentage of gross sales, are roughly 50 per cent of what they are in Canada.

Dr. DEUTSCH: Is that so?

Mr. MCCUTCHEON: This is one item I would assume that might have some bearing, besides the other things you mentioned.

Dr. DEUTSCH: Yes. This could be, again, one of those volume questions. I have not studied this particular thing, Mr. McCutcheon, the rate of profits of chain stores. I have not looked at this particularly. I assume you will be doing that here. It may be the volume in chain stores may be a good deal higher than it is here, on the average. I think that is right, is it not? In the United States, because of their large population and more concentration in many cases, generally their volumes are larger.

We find also in our studies in the Council at least the studies we have made so far would indicate that we use more capital proportionately to output than they do down there, again reflecting the smaller runs, the smaller volumes. This

means our overheads are higher. It may not be the whole explanation, but it may be part of it.

Co-Chairman Mr. BASFORD: There is information before the committee that sales per square foot of chain store space are much larger in the United States than Canada.

Dr. DEUTSCH: Yes, I would not be surprised.

Mr. MCCUTCHEON: We know also from the information gleaned that our chain stores, in effect, have an effectual turnover 10 to 12 times. In effect, they do not need any money at all.

Mr. URIE: Twenty-four times.

Mr. MCCUTCHEON: That is right.

Dr. DEUTSCH: There is quite a considerable overhead on their equipment, parking space and such things as that, and inventories. They consume a considerable amount of capital.

Mr. URIE: But they still have higher rates of profit. Chains in Canada have higher rates of profit than they do in the United States.

Dr. DEUTSCH: Yes, that could be. This might mean that competition is not quite as keen.

Mr. MCCUTCHEON: This is precisely what it means.

Dr. DEUTSCH: I do not know; I have not studied this.

Mr. URIE: Competition in Canada has been extremely high, but it indicates it is not as keen here as it is in the U.S.A.

Dr. DEUTSCH: I have not studied this particular aspect.

Senator MCDONALD: Have not the chain stores admitted this?

Mr. URIE: They have not admitted it, that the competition is keener.

Senator MCDONALD: I would not want to read too deeply into their evidence and not come to that conclusion.

Senator CARTER: Mr. Chairman, I have a few questions left over from this morning, but I would like, first of all, to ask one or two supplementaries by way of clarification of statements that Dr. Deutsch made in reply to other questions.

In reply to Mr. Scott's questions about housing, the statements you made, did they apply only to housing or to the construction industry as a whole?

Dr. DEUTSCH: I talked about both a bit. In housing I mentioned there was a tendency for housing during the business cycle, as it got close to the top of the expansion tended to go down. This has been a typical thing and this has been happening at this time. That is due to the effect of tight credit conditions. Tightening of credit conditions generally affects housing earliest.

Senator CARTER: The housing sector of the construction industry?

Dr. DEUTSCH: The housing sector of the construction industry, yes. This has happened again this time. Now, of course, there is a special problem here because we are coming into a period of very rapid increase in demand for housing because of the way our population, birth rate and so on have been distributed. We are getting very rapid rates of family formation in the next 10 years. It has already started, so we are going to have a very high rate of demand for housing. With housing falling off now and with demand rising very rapidly this could lead to a very difficult situation. So, from the point of view of people who need housing, it has an effect on their cost of living, and we are pointing this out because we are concerned about how we are going to get a more stable price performance.

Senator CARTER: When I read your report I got the impression that the construction industry as a whole, that is the public and private sector—

Dr. DEUTSCH: The rest of the construction industry, that is private investment and government, fluctuates very widely.

Senator CARTER: And because of that it could function as a balance wheel?

Dr. DEUTSCH: Housing?

Senator CARTER: The construction industry.

Dr. DEUTSCH: Yes.

Senator CARTER: As a balance wheel to the economy?

Dr. DEUTSCH: We are saying it would be a good thing to get a better price performance in the economy generally if we could not have quite such wide swings. In the construction industry it now swings very widely, and when we get into a period of expansion the demand on the construction industry goes way up. Therefore, it creates enormous pressures in that industry, and prices and costs shoot up, as they always do. We have had this experience recently. Then when the boom is over it comes way down, and you have unemployment in the industry. We say it would be much better if we could try to smooth it out a bit and not have these wide fluctuations. Governments also tend with their programs to swing much in the same way. We are saying governments could make a contribution to levelling this out if they levelled out their own programs, Instead of their own programs going up and down if they tried to level out their programs a bit better this would help.

Senator CARTER: I understand that. That is not what I am trying to get at. The point you made this morning is that when the Government comes in with their programs at the wrong time they aggravate the situation. Whereas if they used it to counterbalance it they could smooth it out.

Dr. DEUTSCH: Yes, this would help.

Senator CARTER: My original point was, if you stabilize it and smooth out these kinks then you cannot use it as a balance wheel for the economy to take up the slacks. Whereas when the swings are in there this stabilizing business would have the effect of a balance wheel on the economy.

Dr. DEUTSCH: It is just the opposite now.

Senator CARTER: But when the Government comes in to counteract—

Dr. DEUTSCH: When private construction is rising rapidly, if instead of the Government rising rapidly they had a smoother run both in periods of boom and depression, that smoother level of Government investment would help to smooth the whole industry out. This would be a good thing.

Senator CARTER: I realize that.

Co-Chairman Mr. BASFORD: Does that not mean though that in times of rising economic growth you are going to have to take decisions in the public sector to cut out socially desirable building?

Dr. DEUTSCH: No.

Co-Chairman Mr. BASFORD: It seems to me from my observations that immediately you decide to stop building schools or art galleries—

Dr. DEUTSCH: I said I would have built more of those in the slack periods. That is what I am saying. The need for schools and much of social capital can be foretold fairly readily. We know how many children we have; we know how many are going to go to school—we can tell that from the estimates; and in many areas of this kind of public services we can tell what is needed. That means doing them at the time in a smoother way and in a steadier way. We know about them. We can foretell many of these things. It is not very difficult. All I am saying is: Work out these programs based on the need as it can be foreseen, and let the growth develop more smoothly. This is the essence of good

planning, and it is not impossible to do. It will not mean stopping anything that is needed.

Senator COOK: And, as the economy turns down—

Dr. DEUTSCH: Yes. What has happened in the past is that when the economy slackens they pull back on public construction. I say: No, build what is needed but on a longer term basis. You can foretell many of these social requirements pretty well, and they can be provided on a smoother and steadier basis. It is the switching on and off that causes the trouble.

Senator CARTER: Has the construction that has taken place in connection with Expo, and the Centennial year program, which has been concentrated—

Dr. DEUTSCH: In certain areas it has had a very significant effect, yes.

Senator CARTER: Has that introduced abnormalities into the picture.

Dr. DEUTSCH: Yes, that is quite right. I think, in terms of the Montreal area, it has resulted in a great bunching of expenditure. There again, one might say: The Lord forbid; we could see the Centennial year coming a long time ago. Even I could figure that out. I do not think it requires any great genius to say that the one hundredth anniversary would come in 1967.

Senator CARTER: I am not concerned about seeing it coming, but what about next year?

Dr. DEUTSCH: It will pass. But this is what I mean. It is not a great trick to know that the one hundredth anniversary will come in 1967. It requires no great genius to do that.

Senator CARTER: Next year, when it does pass and all this is gone—

Dr. DEUTSCH: Yes, if you had a somewhat smoother development there the drop off would not be so bad, either.

Senator CARTER: What have we to take its place?

Dr. DEUTSCH: If we had good planning we would have something to take its place. We would hold back on some things, and move in with something else.

Senator CARTER: Has that planning been done?

Dr. DEUTSCH: I do not know, but that is what planning means. It means an intelligent laying out of future programs. That is what it means. It requires a little bit of orderly procedure, and asking ourselves: What do we need? We know that certain things are coming along. We know the population is at this figure, and that the children are getting older, and so on, and we know that people are moving into the cities and towns. We can pretty well foretell what social capital we shall need. You can lay it all out, and try to work it out in a smoother way.

Senator CARTER: Of course, many of these demands you are talking about arise at the municipal level.

Dr. DEUTSCH: Yes, they have to be brought in too. They are very important.

Senator CARTER: In this planning you were mentioning in answer to what Mr. McCutcheon asked you just now, when you said that the federal and provincial governments should get together in this field, do you envisage representatives of your Council being in on any conference?

Dr. DEUTSCH: We are suggesting that the Council's report should come out before the conference and be available for the conference, and if they thought it useful we could play whatever part was desired of us.

Senator CARTER: I want to ask you a short question about the chart on page 245 of the report. I am referring to the one headed: "Level and Disparity of Personal Income Per Capita". This runs from 1961 to 1965, and the figures are all in current dollars?

Dr. DEUTSCH: Yes.

Senator CARTER: What would be the conversion factor needed to convert those dollars to 1949 dollars or 1961 dollars?

Dr. DEUTSCH: Well, if you are using the cost of living index—

Senator CARTER: We are not comparing the same things here, are we?

Dr. DEUTSCH: No, you are quite right. These are money dollars. If you want those figures in real dollars you will have to deflate them, as we say, by the index of prices or the productivity index. I suppose the consumer price index would be the one you would use. Taking 1961 as 100, then 1962 would be 102 or something like that. You would have to deflate these by 2 or 3 per cent for each year. I have not the exact figures here.

Senator CARTER: That would be a total of roughly 15 per cent?

Dr. DEUTSCH: There is an actual index that you can use, but I have not got it right here. Yes, it has just been handed to me. It was 129 in 1961; 131 in 1962; 132 in 1963; 135 in 1964; and 139 in 1965. You can convert that to 100 and divide it out. You could take off 2 or 3 per cent each year.

Senator CARTER: I asked you about this table this morning, and about the percentage distribution of net national income. I would like to make sure that I understand accurately what you said. The labour share of this pie has not changed since 1950, has it? It stands at 52 per cent?

Dr. DEUTSCH: That is, paid by business.

Senator CARTER: When you say "business" you mean industry—

Dr. DEUTSCH: It is not government.

Senator CARTER: No, industry. It is the labour force that we are talking about.

Dr. DEUTSCH: The labour force employed by private business.

Senator CARTER: So their share of the pie has not changed since 1950.

Dr. DEUTSCH: No.

Senator CARTER: And the share of business or industry, on the other hand after profits, has gone down slightly from 8 per cent to 7 per cent?

Dr. DEUTSCH: Yes, as a proportion of the total.

Senator CARTER: Yes, of the G.N.P.?

Dr. DEUTSCH: That is right—no, this is national income. This is not the G.N.P., but the net national income. It says so at the top. That is after taking off indirect taxes.

Senator CARTER: In terms of the G.N.P. would it be very much different?

Dr. DEUTSCH: No. The figures would be different, but the effect would not be much different. There may be some slight differences, but no substantial differences.

Senator CARTER: You told us this morning, Dr. Deutsch, about the handicaps you have in getting information. In your report you describe how inflation starts at the beginning of expansion in little sporadic bottlenecks which create pressures which correct themselves without very much effect.

Dr. DEUTSCH: Some do and some don't, yes.

Senator CARTER: But eventually as expansion goes on they build up, and they accumulate to the point where they can exert influence on the total demand?

Dr. DEUTSCH: Yes, the general price level.

Senator CARTER: Now, you want to detect that point as quickly as possible?

Dr. DEUTSCH: Yes.

Senator CARTER: Is that your problem now—that you cannot detect it soon enough?

Dr. DEUTSCH: We have great deficiencies of information. We do not have good information on the demand for labour. That seems funny, but we do not. We have no unfilled vacancy figures that are worth anything. We have some figures but they are not worth anything. This is a very important figure. We would like to know what is happening in the demand for labour. This is one of the places where it would signal trouble.

We want to know what kind of skills and what kind of labour are going to be needed, so that we know how we should be training people who are coming off one job and going elsewhere. We want to know what sort of skills are going to be needed.

Senator CARTER: Your main trouble is in collecting information?

Dr. DEUTSCH: Yes, collecting it, and collecting it in a way that is meaningful. That is what is difficult to do. It has got to be done with proper skill. We have not got information on rates of capacity. We do not know very well in Canada what the capacities of industries are, and what capacity is being used. We have no good information on that. This is useful information in order to be able to see how quickly capacity is being used up in various industries.

Senator CARTER: Do you depend on D.B.S. for this information?

Dr. DEUTSCH: Normally D.B.S. collects this kind of information, but they are not collecting this specific information. At the present time some work is starting on this because the Council two years ago said it was a serious matter. In the second review we said we must get better information. Preparations are being made for the collection of some of this information, especially that with respect to unfilled vacancies.

Then, on capacity we also think it would be very useful if we could have information on the degree of use of capacity in industry. This is very useful in order to be able to detect these pressure points, and how they are developing, so that if anything can be done about it they can do something in time.

Senator CARTER: Do you have any meaningful figures on productivity in Canada?

Dr. DEUTSCH: We have some figures.

Senator CARTER: How many?

Dr. DEUTSCH: They are very unsatisfactory, if I may say so.

Mr. SCOTT (*Danforth*): Have you any figures that are satisfactory?

Dr. DEUTSCH: Some more than others, yes, but on productivity generally our figures are deficient. This is one of the problems. Our productivity figures in any immediate period are certainly very, very poor. It is hard to tell at any moment what the productivity is, to be frank. We suspect that at the present time the increase in productivity has been falling off. The figures show that, but you cannot be too confident that it is as bad as the figures seem to indicate. So you have to be very cautious in making statements about these things except in he longer run trend where the figures are more usable.

Senator CARTER: What is the information that you have? Do you feed it into computers at your headquarters and correlate it in that way?

Dr. DEUTSCH: Yes, I think there is great scope to use the new methods of computers.

Senator CARTER: Do you have them?

Dr. DEUTSCH: We in the Council are trying to do what we can along with the Department of Finance to make better use of this technology. There has now been a central computer installation put in and we are trying to set up a data bank, as it is called, a new technology for storing information, but we are still a

long way from doing what should be done, so our information is a bit slow. It is not only inadequate but late. Most of our basic economic information is from one month to two months behind the United States, and this is too much. We are worried about this.

Timing is an important factor in public policy, and with the statistics running as late as they do this is a handicap and should be improved. The Council therefore states in its report that it is very important to improve these things, to get more prompt statistics and to fill in the gaps. If you want to use this information for public policy it has to be more adequate and more up to date. If you want to get all this good performance we are talking about, high level of employment, reasonable stability of prices etc. If you are going to achieve these goals that means prompt and adequate information. We are not as well equipped as we should be to do these things.

Senator CARTER: Have you a program?

Dr. DEUTSCH: We have some recommendations.

Co-Chairman Mr. BASFORD: Mr. Choquette?

M. CHOQUETTE: Monsieur le président, je suis informé—

Co-Chairman Mr. BASFORD: Mr. Choquette, I must again apologize. We started this morning with an interpreter who seems to have disappeared. I have endeavoured to obtain one, and can only explain that they cannot at the moment supply me with one. I did not realize that.

Mr. CHOQUETTE: I understand your good will, Mr. Chairman.

Co-Chairman Mr. BASFORD: Thank you.

Mr. CHOQUETTE: I will ask only a few questions. But some of these days it will come that we will have to refuse the sittings of the committee if you do not get a translator, but I understand the situation.

I am told that Mr. Otto asked some questions about advertising this morning, and perhaps this will be a repetition. He suggested that today our advertising is almost an exploitation of the consumers and that it would be necessary to reform our advertising and that some sort of an inquiry would be necessary, if you take, for example, all the advertising in the newspapers and on radio and television.

Dr. DEUTSCH: I am not an expert in this field. This is very largely a sociological study, if I may say so, Mr. Choquette, as to how this does affect the consumer and his incentives. This is not something economists can say much about except that they might do some of the statistical work involved. But how it affects the consumer's motivation, and so on, are psychological and sociological questions. Basically if you want to find out how it affects the consumer and what he does, that would require a special study, and I do not know to what extent an economist can be very helpful to you here. How human motivations are determined, and so on, I do not know.

Mr. CHOQUETTE: So you say it would require a special study, and would you say that such a study or inquiry to date really becomes a necessity due to the fact that television and radio are so powerful and people really get influenced by what they hear and which is not always true.

Dr. DEUTSCH: I see what you mean. That is another aspect of it. There is this business about advertising and misrepresentation. All of that is another question. Actually, this is a matter of public policy. Obviously we must have a policy to prevent misrepresentation and so on, and in many countries there are—

Mr. CHOQUETTE: Restrictions?

Dr. DEUTSCH: Restrictions and ways of dealing with it. The new department of the Registrar General has as one of its responsibilities this kind of protection, and the Government has asked us to examine how these new functions should be

carried out including consumer protection. We shall be looking at this aspect in our next reference, and what kind of machinery we should have and what rules and regulations. We shall be examining what other countries do and see if there is anything we can use.

Other countries have different kinds of programs, such as Sweden and the United States. Britain is setting up a consumers' council and we shall be studying that to see what we think is workable in this country, and deal with such things as misleading or fraudulent advertising, misrepresentation, and all that kind of thing.

Mr. CHOQUETTE: You are aware of the fact I think that BGR made a restriction to the effect that no commercial advertising can take more than 12 minutes out in an hour?

Dr. DEUTSCH: That is a matter of radio regulation, and that would not come within our scope.

Mr. CHOQUETTE: In your study or inquiry some recommendation will be done on all the departments concerned, even BGR?

Dr. DEUTSCH: In so far as it leads to this question of consumer protection?

Mr. CHOQUETTE: Yes.

Dr. DEUTSCH: There may be other factors. Whether TV is used for advertising or entertainment, that is not our concern. Where consumer protection arises we will certainly consider that as part of a general problem.

Mr. CHOQUETTE: Thank you, sir.

Co-Chairman Mr. BASFORD: Mr. Allmand?

Mr. ALLMAND: Dr. Deutsch, I notice in the second chapter of your report on world economy you seem to favour very strongly free trade areas. You state on page 29:

> Increased specialization, leading to increased international marketing, could add significantly to the growth of real income per capita.

Dr. DEUTSCH: Yes.

Mr. ALLMAND: And you say elsewhere that Canada should take initiatives to create freer and wider trade.

Dr. DEUTSCH: Freer trade, that is right.

Co-Chairman Mr. BASFORD: Senator McDonald and I are applauding.

Mr. ALLMAND: I was wondering what is your opinion or assessment, economically speaking, of such agreements as the auto agreement pact. Do you think that such agreements in specified areas do achieve results which you seem to want to achieve in your suggestions? In other words, will they achieve increased productivity, lower prices, etc. etc.?

Dr. DEUTSCH: The Council points out that we could improve our productivity in Canada if we had more specialization in our production, and this could be facilitated by freer trade, because we need larger markets. One reason why our degree of specialization is not as good as it might be is because our market is too small and we can get better specialization and more efficiency by larger markets, and that means markets abroad as well as at home. We can get better specialization and more efficiency by larger markets. That is why the Council suggests that if we want to get better productivity by this method we should be in favour of freer trade. But we do not say freer trade by any particular method, as you see. First of all, we say specifically, in our Second Annual Review, as a suggestion to the Government; In particular we recommend in accordance with the foregoing basic commercial policy that:

> (1) Maximum use be made of the opportunities available in the present Kennedy Round—

There are negotiations going on at present in Geneva, one of the most important in recent years, and the Council says that this opportunity should be used to the maximum extent possible for freer trade. This is our basic recommendation. This is the immediate problem in front of us. These Kennedy negotiations are still going on and the decisions have still to be made. This is the most immediate place where action can be taken.

Mr. ALLMAND: I was asking you if you had any comments economically on the automotive agreement, not socially, but on economics?

Dr. DEUTSCH: I understand the agreement is designed to increase the specialization of the automotive industry, to improve its efficiency and in this regard I am in favour of this kind of thing. That does not necessarily involve my approving the particular methods used in this particular instance. There is some room for discussion as to whether this was the best particular method. However, it is not something for decision by ourselves: you have to get agreement with your partner. Some people have suggested that this is a method of doing it which involves a good deal of protection, because the tariff comes off only for a selected number of producers and all others have to come in over the tariff. This means that existing producers can get a certain amount of protection still. Some economists criticize this on the ground that this is a very protective way of doing this thing, that it would have been better to have brought the tariff down further and reduced the protection. However, I am not going into that detail now.

The idea of getting better specialization is a good one. This was along the lines of the Council's thinking, that we must get our industries on some more efficient basis, some more competitive basis. One of the ways was to give them better oportunities of specialization and one which would make larger markets available to them, and I think this is having a good effect.

Mr. ALLMAND: In order to increase productivity we must have increased investment. I wonder whether you thought we are becoming more able to produce the investment capital now in Canada?

Dr. DEUTSCH: I see. Yes, we are.

Mr. ALLMAND: The trend is toward greater capability of doing this?

Dr. DEUTSCH: That is right. If you look back over the last 40 to 50 years or longer, we have had several big periods of expansion, really big periods of expansion. That is, 1900 to 1913; the latter part of the 1920's; then again after the Second World War. These are the important periods of Canadian growth. In every one of those successive periods we have had more self-sufficiency in our own capital. In this past one, we have been more self-sufficient than at any time—that is, in the period 1961 to 1966, we are financing a much larger part of this growth than we did in any time previously.

Mr. ALLMAND: Do you think our economic institutions for providing investment capital are sufficient? Do you think we require say other public bodies to assist in providing capital for investment?

Dr. DEUTSCH: Capital is not usually provided by a public body, you know.

Mr. ALLMAND: The institutions. I want your opinion about the institutions we have which collect and provide capital.

Dr. DEUTSCH: I think there is always room for improvement in these. In other words, capital is provided by people saving, people or companies. This is the way capital comes—by people saving. You might be able to make improvements which would make it easier for people to save.

Anything that does that will help us to produce more capital. Anything which gives bigger incentives to save, will add to the amount of capital available. Undoubtedly there are ways of improving this. None of these institutions always work fully and to the best advantage and we need constantly to look for improvements, both in private institutions and public institutions.

We must not confuse machinery with saving. It is not just a case of making some new machinery.

Mr. ALLMAND: I did not mean machines. I meant institutions which encourage saving and encourage investment.

Dr. DEUTSCH: Certainly there is room for improvement there.

Senator McDONALD: I was interested in your answer that we are becoming more able to finance our capital growth within our own country. What would happen if some parent companies withdrew their earnings from Canadian subsidiaries? Would we still be in this position?

Dr. DEUTSCH: Yes. We are progressively able to save more of what we require. In this country we are heavy users of capital, one of the world's most important users of capital in relation to output. The amount of capital we require to take care of our growing population is great. Our population growth and our labour force growth is very rapid, more rapid than in any other industrial country in the world. In order to provide opportunities for employment, we need very heavy investment. This investment runs ahead of our capacity at the present time to save, but the extent to which it runs ahead is less and less.

Senator McDONALD: I am not sure that you understood my question. If the parent companies outside of Canada which have their subsidiaries in Canada, withdrew their profits?

Dr. DEUTSCH: Overnight, sir?

Senator McDONALD: Gradually over a period of years?

Dr. DEUTSCH: That would offset our own savings.

Senator McDONALD: Is it true, then, to say that the only reason we would be better able to provide capital from within Canada is because a good many foreign companies with subsidiaries in Canada are leaving their profits or reinvesting their profits in Canada?

Dr. DEUTSCH: This is so, but if they withdraw their capital or accumulated profits, that were made in the past, they are taking capital out of Canada and we would have to finance that capital withdrawal and then our savings would be used up in doing this and not available for something else. If any capital that is here stays here, then our capacity to finance our own requirements grows. That is not to say that no new form of investment would come in. Some would come in and some go out. We are also investing abroad, from Canada. We are going abroad and investing, and other companies are coming here; but the net position is improving.

Of course, if some people draw their money out, we would have to finance it and we would use up our savings in doing that and not have money to finance our own investment.

Mr. ALLMAND: It seems to me that in the use of monetary and fiscal policy, seeing that it is applied at the correct time and so on, as you described this morning, it is indiscriminatory and affects socially desirable investment—or let us say, less desirable investment. You get a cutback on luxury goods, such as yo-yo's and such things like that and you also get a cutback on, probably, educational buildings, and probably on medical buildings and so forth. Is that correct?

Dr. DEUTSCH: It does not happen—

Mr. ALLMAND: If you cut the money supply?

Dr. DEUTSCH: That depends. You can determine this to some extent. In so far as social capital is concerned, the Government itself can decide what priority it gives to those things, in spite of any monetary position.

Mr. ALLMAND: In the spending, they can; but I was thinking of our money supply.

Dr. DEUTSCH: The money supply, that is a general thing. The Government will get the money, even if it has to borrow it to do these things. It may have to pay more interest to get it, if money is tight. But if the Government wants to spend money on social capital, it can do so. That is a matter of decision. I am merely suggesting it do it more smoothly and try to do it in a more regular way, forseeing and planning ahead further, so that it might make it less likely that you might have to cut back. It should be planned on a longer term basis. But there is no reason why the proper monetary policy should result in inadequate social capital. That is a matter of government decision.

Mr. ALLMAND: It seems to me that having inflation, and when these tools are used to break the inflation, often the less important things still continue to expand and the more important things are often cut back—I mean socially.

Dr. DEUTSCH: Social things are largely done by the Government, anyway, and the Government, if it wants that improvement, can carry it out. It is its own decision. On the other hand, if there are other things in the private field, that are socially very important, there are other ways of making sure that that priority goes to them. You can use special lending powers of the Government or you can provide subsidies if that is the way you wish to do it. If you attach high priority to some particular thing you do not want to hurt, there are lots of ways of doing it without wrecking the whole general policy.

Mr. ALLMAND: I have one final, short question. At page 139 of your booklet you have a table on the breakdown of income into different groups, in which you have lumped together salaries, wages and supplements. Also lumped together are rent, interest and miscellaneous investment income.

I was wondering if you have a table or statistics anywhere showing a more detailed breakdown into labour groups, such as the blue collar group, the white collar group and the professional income group, the small proprietorships and so on and so forth.

Dr. DEUTSCH: There are certain statistics here. To break it down quite as fine as you are suggesting would be most difficult.

Mr. ALLMAND: I asked this because we were debating in the House of Commons the other day whether lower income groups were getting a still smaller share of the pie as compared with the higher income groups. It seems that often the only statistics we have to deal with are statistics such as these, where salaries, wages and supplements are all grouped together. This would include high salaried people and professional people who are actually in the upper echelons.

Dr. DEUTSCH: This would include some professionals, but it refers to employed people mostly. However, there is a mixture of salaries and wages there; that is right.

Mr. ALLMAND: Yes.

Dr. DEUTSCH: The distribution of income by size is shown on page 140 in a little table there. By the way, this information is not very good in this country.

Mr. ALLMAND: You mean the information that I want.

Dr. DEUTSCH: Yes. It is not very good. However, on page 140 you will see a table in which proportions of income received are shown. If you take the first line you will see that the income received by the lowest-income bracket, which is 20 per cent, was 5 per cent in the early thirties. In 1951 it was 8 per cent and in 1961 it was also 8 per cent. Incidentally, I should point out that a special survey made in the 1961 census is the latest information we have. Basing ourselves on that information, we can say that it has not gone against them but that it has not improved either since 1951.

Now, what has happened between 1961 and the present time is information that I am sorry to say we do not have. All I can point out is that the lowest

percentage group, 20 per cent, is better off now than it was 30 years ago, but, because it did not improve from 1951 to 1961, we suspect that there has not been much improvement since 1961 to date.

Mr. ALLMAND: I would like to know, for example, the share of the gross national income going to blue collar labour. Has it increased per capita over the years?

Dr. DEUTSCH: As against the salaried person?

Mr. ALLMAND: Or against let us say the people who get their income entirely from rents or from profits. Also, I would like to see statistics for professional people who get their income from fees. That is, doctors, lawyers, dentists and so on. I would like to see those isolated from the blue collar workers and white collar salaried people. Also, in the category of rent, interest and miscellaneous investments, we understood from Mr. Bryce, when he was here from the Department of Finance, that that included all pension plans. Pension plans are, of course, received by a lot of people in lower income groups, which makes it rather difficult to determine whether this is people clipping bonds or people receiving pensions from companies and so forth.

Dr. DEUTSCH: I am not sure about this pension plan business.

Mr. ALLMAND: In answer to a question, Mr. Bryce said that it did include these.

Dr. DEUTSCH: He may not be using the same figures, however. I do not know, but this is our own table here.

Mr. ALLMAND: I see.

Dr. DEUTSCH: But, on your larger question, about the shares of certain kinds of workers as against others, there is information available. It is very patchy information, though. It would take a lot of work to make any meaningful comparisons from it.

Mr. ALLMAND: Do they have this type of information in the United States?

Dr. DEUTSCH: More so than we have here, yes. Again this is an area where our information is very unsatisfactory. Moreover, some of the census of 1961 has not yet been analysed. Perhaps in a year or two from now more information will be available, but at the moment what information we have is rather patchy and very hard to use.

Mr. ALLMAND: I suppose when the 1966 census is analysed that will make things a little better.

Dr. DEUTSCH: I understand that we will have only a population census in 1966 and not one dealing with incomes. The next census after that will come in 1971. Our censuses are far apart, and it is rather difficult to say what happens between censuses. Our statistics are not very well analysed as yet. This is a very difficult area from which to patch something up. I agree that we need to know a lot more about these things. We have done as much as we could, though, with the information available to us.

Mr. ALLMAND: That is all. Thank you.

Senator INMAN: Mr. Chairman, I come from Prince Edward Island, which is properly an agricultural country. Therefore I am very interested in this increase of population that is going to come, because I wonder where the food is going to come from. I would like to ask you, Dr. Deutsch, whether any study has been made concerning getting people back to the land and to the farms.

Dr. DEUTSCH: Well, Senator, the trend is for people to move off the farms.

Senator INMAN: I see.

Dr. DEUTSCH: That has been the trend in the past and, as far as we can tell, it will probably continue, though it will be to a lesser extent in certain places and more in other areas.

The number of people on farms is still a bit higher in Canada than it is in the United States, but we are going in the same direction. However, we are also pointing out that, with the rising demand for food, this outflow from the farms is becoming a more serious matter because we need to make sure that we keep enough resources on the farms to produce the food we need.

We must make it worthwhile for the people we need on the farms so that they will stay there. In future years, this is going to be a more serious question than it has been in the past.

Senator INMAN: Do you propose to make any study of the problem?

Dr. DEUTSCH: Yes. It is one of our long-range studies. We are working on it. Next year we hope to project the Canadian economy ahead for another five, six or seven years. We will be trying to see what the future looks like.

Senator INMAN: Thank you.

Dr. DEUTSCH: We may have something to say about this problem when we have done that.

Mr. SCOTT (*Danforth*): Dr. Deutsch, I have a general question about the Economic Council itself. Many of us, when the legislation was passed, tried to give you greater powers, but, as I understand it, you are essentially a body which gives us goals and objectives for the economy to reach. You do not actually tell us how to get there, though.

Dr. DEUTSCH: We do more than that. First of all the Council, as indicated in the legislation, was set up to make studies and to advise. We are not an operational body. We do not make decisions. We are there to make studies, to analyse and to advise and then to make reports. We are there to consider how to reach certain social and economic goals. We try to determine what they are and how we can reach them. We discuss what those goals are, what kind of problems we will have in reaching them and what kind of policies are required to achieve them. That is what our reports are all about. Somebody else has to make the decisions, however. We are not the responsible body.

Mr. SCOTT (*Danforth*): Running through your whole testimony, Doctor, and I am not saying this critically at all—

Dr. DEUTSCH: Say anything you like. I will look after myself. Don't worry.

Mr. SCOTT (*Danforth*): Running through your whole testimony today has been a recurring thread, as I read it, of inadequate information or unreliable statistics.

Dr. DEUTSCH: That is one of our problems, yes.

Mr. SCOTT (*Danforth*): For example, there are no real meaningful facts or statistics about unplaced applicants or industrial capacity; you cannot detect pressure points; you cannot determine productivity; part of the 1961 census is not analysed yet. Are we not operating pretty much in the dark in Canada? In the face of that, how reliable are the things that go into your reports, which is becoming, probably, the most prestigious document to come out every year. It has already been waved all over the House of Commons since we got it. How reliable are the projections, goals and objectives that you set for us in the light of the type of testimony that you have given us of the general unreliability of the statistics available to you?

Dr. DEUTSCH: You are talking about certain types of statistics. There is a good deal of other information available to us which is much better. I have been talking about those things where we are deficient, and where we would like to have more information; but we have a lot of information as well which we use to good advantage. Canada is one of the better served countries, I might say. You may talk about deficiencies and so on, but among the industrial countries we are one of the best informed. Our information may not be as good as that in some

other countries—for example the United States which has in a number of ways better information than we—but we have still got a lot of information and our Bureau of Statistics has done much good work and has supplied us with an abundance of information. We are using what we can, and in some cases we have to be a little more tentative, precisely because we have not as much as we would like, but we are trying to make the best use of the information we have, and there is a good deal, and that is what we base our reports on. We are trying to get better and are suggesting where things can be improved. If you want to get more clear on timing, we need to have better information. It is only logical we should ask for it, and that will enable us to make better decisions.

Mr. SCOTT (*Danforth*): Is there sufficient activity in this general area now to indicate to you this type of information is being gathered?

Dr. DEUTSCH: Some is, As I mentioned earlier, they are now really very active in trying to produce this "unfilled vacancy" information. This is now in process, after urging by us for some time; and others have urged this too—we are not the only ones. Other areas are being improved but, frankly, we are a bit concerned that some things are not moving as fast as they should. I am concerned about the speed with which some of these things are being done. There is a shortage of manpower. These statisticians and economists are very scarce, and I am a little concerned that this is not moving ahead just as fast as it should. That is why we keep stressing it in our report. While we know a lot and can do useful things, there are many areas we do not know enough about, and that gives us problems. We do not know where we are soon enough or what the effects of certain things have been. If we want to get a better performance in public policy we must have more information.

Mr. SCOTT (*Danforth*): Is your ability to forecast in any way limited by not being privy to major political decisions?

Dr. DEUTSCH: We do not attempt to forecast, not in general. Our reports deal with goals and targets; we do not attempt to forecast. We do sometimes project some things on the basis of certain targets and programs, but we do not try to give you a general forecast; that is another exercise. If you were trying to do a real forecast you would have to know much more about it, pending political decisions and things like that. We do not do that, and we are not asked to do it. We indicate what our goals should be, what our targets should be, and then we discuss the problems and policies involved in reaching those targets—what kind of policies would be needed; what kind of problems you might encounter; what priorities you should have. The decision must be made by Government, where the responsibility is, but we do not try to forecast and try to tell you what will happen five years from now. We try to tell you what we would like to see happen. That is what we do; that is the planning exercise.

Co-Chairman Mr. BASFORD: There being no further names on my list—

Senator CARTER: I do not want to take somebody else's time who has not had a second turn yet.

Co-Chairman Mr. BASFORD: I was going to try to adjourn the meeting fairly soon.

Senator CARTER: I will not be long.

Dr. DEUTSCH: Mr. Scott, does that answer your question?

Mr. SCOTT (*Danforth*): Yes, thank you very much. I knew, but I just wanted to get it on the record.

Senator CARTER: If I understood you correctly this morning, you told us that when you are confronted with a situation in the economy and start to apply the two big levers of fiscal and monetary policy, you have to do this within the framework of the exchange rate prevailing at that time.

Dr. DEUTSCH: No, I did not say we have to. I merely said, "at any given exchange rate." We discuss that question in the report. We say that if you are going to achieve you goals in a satisfactory way the position of the exchange rate would be an important matter. If the exchange rate position is wrong, then it might be very difficult to achieve your goals. We say there must also be a correct setting of the exchange rate, and we say you should not make a sacred cow out of it. On the other hand, you cannot jiggle the exchange rate any time you want to. There are many factors to consider. The way the world is now organized you have to keep responsible atttiudes with regard to your trading partners, and so on and we have certain obligations to the international monetary fund. Changing the exchange rate is not an easy matter. You have to keep this in mind. We are also saying that when the exchange rate gets out of kilter, so that it makes it impossible for you to achieve your goals, then you must look at the exchange rate and put it right.

Senator CARTER: What is your assessment of the present exchange rate? Is it correct for the situation we have now?

Dr. DEUTSCH: The new exchange rate undoubtedly, in the last three or four years, has had a stimulating effect on our economy, and continues to have.

Senator CARTER: And continues to have?

Dr. DEUTSCH: As far as we can tell.

Senator CARTER: There is no pressure?

Dr. DEUTSCH: We must keep our eye on not letting costs and prices run to a point where we lose our competitiveness. We have to watch our monetary and fiscal policies so as not to drive our costs and prices up to a point where we are uncompetitive and where we will be in difficulty again. That is why we have to get the right kind of demand policies because if you get too rapid price and cost increases you run into the danger of losing your competitiveness.

Senator CARTER: You said that if we did not apply the right thing at the right time eventually you run into the balance of payments problem, which becomes the overriding factor.

Dr. DEUTSCH: Yes.

Senator CARTER: Would it help Canada if our Canadian currency was tied to gold like the United States?

Mr. DEUTSCH: Our dollar at the moment is tied to the American dollar. Did you say we should tie it to gold?

Senator CARTER: Yes.

Dr. DEUTSCH: It would not make any practical difference at the moment because the American dollar is already tied to gold. I do not think it makes any practical difference at the present time—unless the United States went away from the gold standard, and then it would make a difference.

Senator CARTER: Big countries like Russia and China, when they have wheat deals they pay in gold. They have enought gold to take care of their balance of payments.

Dr. DEUTSCH: Russia is a large producer of gold which it uses to pay for some imports.

Senator CARTER: We have gold, and would it not be to Canada's benefit if we could produce more gold, even if we had a subsidy?

Dr. DEUTSCH: We do subsidize it now.

Senator CARTER: But we could do more with it.

Dr. DEUTSCH: It is a nice question whether you should use your resources this way, to get foreign exchange, or another way in which you get foreign exchange more efficiently. When you are using resources to produce something

you could use them to do something else. Which is the more efficient way of doing it? Once you get into big subsidies it means you are not very efficient in what you are doing. Which is the more efficient way of getting exchange? We are subsidizing gold to some extent now. I am not complaining about what we are doing at the moment. These are some considerations you have to have in mind.

Co-Chairman Mr. BASFORD: There being no further questions, on behalf of the committee I would like to express, I know, our great thanks to you for a real tour de force today. I do not know whether after today's experience you want to withdraw your recommendation of a standing committee on economic affairs—

Dr. DEUTSCH: No, I think this encourages me a great deal. We have had a very fine day, I think.

Co-Chairman Mr. BASFORD: We have ranged far and wide from the price of food, which I think was quite proper for us to do in a general examination and educational session on your report, and I know that I and the committee are very grateful to you and your staff for coming here today.

Dr. DEUTSCH: I might say that any time we can be of any help to you, you are most welcome to call us. We will be glad to do what we can. Thank you.

The committee adjourned.

First Session—Twenty-seventh Parliament

1966

PROCEEDINGS OF

THE SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON

CONSUMER CREDIT

(PRICES)

No. 22

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TUESDAY, NOVEMBER 29, 1966

JOINT CHAIRMEN

The Honourable Senator David A. Croll

and

Mr. Ron Basford, M.P.

WITNESSES:

Colgate-Palmolive Limited: Mr. Richard C. Beeson, President; Mr. W. S. Winter, Vice-President, Finance.

Canadian Federation of Agriculture: Mr. David Kirk, Executive Secretary.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1966

25231—1

MEMBERS OF THE SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON CONSUMER CREDIT

(PRICES)

For the Senate

Hon. David A. Croll, Joint Chairman

the Honourable Senators

Carter,
Cook,
Croll,
Hastings,
Hollett,
Inman,
McDonald (*Moosomin*),
McGrand,
O'Leary (*Antigonish-Guysborough*),
Thorvaldson,
Urquhart,
Vaillancourt—(12).

For the House of Commons

Mr. Ron Basford, Joint Chairman

Members of the House of Commons

Allmand,
Andras,
Basford,
Cashin,
Choquette,
Clancy,
Code,
Crossman,
Duquet,
Horner (*Acadia*),
Irvine,
Leblanc (*Laurier*),
Lefebvre,
MacInnis,
Mandziuk,
McCutcheon,
McLelland,
O'Keefe,
Olson,
Otto,
Ryan,
Scott (*Danforth*),
Smith,
Whelan—(24).

36 members

Quorum 7

SUPPLEMENTARY ORDERS OF REFERENCE

Extract from the Votes and Proceedings of the House of Commons, September 9, 1966:—

"Mr. Sharp, seconded by Miss LaMarsh, moved,—That the Joint Committee of the Senate and House of Commons appointed by this House on March 15, 1966, to enquire into and report upon the problems of consumer credit, be instructed to also enquire into and report upon the trends in the cost of living in Canada and factors which may have contributed to changes in the cost of living in Canada in recent months;

And that a Message be sent to the Senate to acquaint Their Honours thereof and to request the concurrence of that House thereto.

And the question being proposed;

Mr. Pickersgill, seconded by Mr. McIlraith, moved in amendment thereto,—That the motion be amended by striking out the words "by this House on March 15, 1966" where they appear in the second line thereof and by inserting in the motion as the second paragraph the following:

"That the Committee have leave to sit notwithstanding any adjournment of this House;".

And the question being put on the said amendment, it was agreed to.

After debate on the main motion as amended, it was agreed to."

Extract from the Votes and Proceedings of the House of Commons, October 7, 1966:—

By unanimous consent, Mr. Basford, seconded by Mr. Allmand, moved,—That the First and Second Reports of the Special Joint Committee on Consumer Credit and Cost of Living, presented to the House on Friday, April 1 and Thursday, October 6, 1966, be concurred in.

After debate thereon, the question being put on the said motion, it was agreed to.

Accordingly, the said Reports were concurred in and are as follows:

FIRST REPORT

Your Committee recommends that seven (7) of its Members constitute a quorum, provided that both Houses are represented.

SECOND REPORT

Your Committee recommends that the House of Commons section of the said Committee be granted leave to sit while the House is sitting.

LÉON-J. RAYMOND,
Clerk of the House of Commons.

Extract from the Minutes of the Proceedings of the Senate, September 13, 1966:—

"The Honourable Senator Connolly, P.C., moved, seconded by the Honourable Senator Hugessen:

That the Senate do agree that the Joint Committee of the Senate and House of Commons appointed to enquire into and report upon the prob-

lems of consumer credit, be instructed also to enquire into and report upon the trends in the cost of living in Canada and factors which may have contributed to changes in the cost of living in Canada in recent months; and

That a message be sent to the House of Commons to acquaint that House accordingly.

After debate, and—
The question being put on the motion, it was—
Resolved in the affirmative."

Extract from the Minutes of the Proceedings of the Senate, Tuesday, November 22, 1966:—

The Honourable Senator Connolly, P.C., moved, seconded by the Honourable Senator Beaubien (*Provencher*):

That the Third Annual Review of the Economic Council of Canada relating to Prices, Productivity and Employment, dated November 1966, which was tabled in the Senate today, be referred to the Special Joint Committee of the Senate and House of Commons on Consumer Credit and Cost of Living.

The question being put on the motion, it was—
Resolved in the affirmative.

J. F. MacNEILL,
Clerk of the Senate.

MINUTES OF PROCEEDINGS

TUESDAY, November 29, 1966.

Pursuant to adjournment and notice the Special Joint Committee on Consumer Credit (Prices) met this day at 9.30 a.m.

Present: For the Senate: The Hon. Senators Carter, Cook, Croll (*Joint Chairman*), Hollett, Inman, McDonald (*Moosomin*) and O'Leary (*Antigonish-Guysborough*).—7.

For the House of Commons: Messrs. Allmand, Andras, Basford (*Joint Chairman*), Code, MacInnis, Mandziuk, O'Keefe, Scott (*Danforth*), Smith and Whelan.—10.

In attendance: Dr. R. Warren James, Special Assistant; Mr. John J. Urie, Q.C., Counsel; Mr. Marcel Joyal, Q.C., Associate Counsel; Mr. Jacques L'Heureux, C.A., Accountant.

The following were heard:

Colgate-Palmolive Limited:

Mr. Richard C. Beeson,
President.
Mr. W. S. Winter,
Vice-President, Finance.

At 1.00 p.m. the Committee adjourned.

At 3.00 p.m. the Committee resumed.

Present: For the Senate: The Hon. Senators Carter, Cook, Croll (*Joint Chairman*), Hollett, Inman, McDonald (*Moosomin*) and O'Leary (*Antigonish-Guysborough*).—7.

For the House of Commons: Messrs. Allmand, Andras, Basford (*Joint Chairman*), MacInnis, O'Keefe, Smith and Whelan.—7.

In attendance: Dr. R. Warren James, Special Assistant; Mr. Jacques l'Heureux, C.A., Accountant.

Mr. David Kirk, Executive Secretary, Canadian Federation of Agriculture, was heard.

At 5.30 p.m. the Committee adjourned until Thursday next, December 1, at 9:30 a.m.

Attest.

John A. Hinds,
Assistant Chief,
Senate Committees Branch.

THE SENATE

SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON CONSUMER CREDIT

EVIDENCE

OTTAWA, Tuesday, November 29, 1966.

The Special Joint Committee of the Senate and House of Commons on Consumer Credit met this day at 9:30 a.m.

Senator David A. Croll and Mr. Ron Basford, M.P., Co-Chairmen.

Co-Chairman Senator CROLL: I see a quorum, and I call the meeting to order. We have before us today Colgate-Palmolive Limited. Mr. Richard C. Beeson, the President, will now present his brief.

Mr. Richard C. Beeson, President, Colgate-Palmolive Limited:

1. Mr. Chairman, Honourable Members of the Senate and House of Commons Special Joint Committee.

2. My name is Richard C. Beeson, President of Colgate-Palmolive Limited, and I appear in response to the invitation of this Committee extended by its Special Assistant Dr. R. W. James.

3. Dr. James advised that the purpose of my presence at this enquiry is:

> "To describe the recent experience of your Company insofar as it is relevant to changes in the cost of living and consumption patterns among Canadian consumers."

4. This, of course, is in conformity with the resolutions passed by the House of Commons and the Senate on September 9 and 13 respectively wherein this Committee is required:

> "to enquire into and report upon the trends in the cost of living in Canada and factors which may have contributed to changes in the cost of living in Canada in recent months."

5. Colgate-Palmolive Limited has been a factor in the marketplace of Canada for many years and it is our hope that by making available the experience gained over these years we can be of help to this Committee in its present endeavours.

6. Dr. James furnished us with a list of 11 suggested topics for discussion and that list appears as Schedule 1 at page 1 of the second binder—the grey covered binder. (*See Appendix following text.*) I have listed those topics for discussion in the body of the brief so the committee will not have to refer to the list. I shall not read the topics, but they are there for reference.

7. The body of our presentation is directed to an exposition of our corporate experience respecting matters pertinent to changes in the cost of living and consumption patterns among Canadian consumers with particular reference to those consumer products which the guidelines indicate are of chief interest to the Joint Committee, namely, soap and detergent household cleaning aids.

8. We have attempted to answer clearly the enquiries contained in the guidelines furnished to us and we have added supplemental information where it

was considered as being helpful in presenting a meaningful picture of the business operations conducted by our Company.

9. I propose not only to furnish you with details concerning the operations of our Company but also to offer you our general opinions, experience and conclusions regarding many aspects of the detergent industry and including our knowledge of the consumer and of the marketplace in which we function.

10. Before responding to those enquiries, however, permit me to tell you briefly about our company—Colgate-Palmolive Limited.

11. Colgate-Palmolive Limited is a Canadian Company that is also a wholly owned subsidiary of Colgate-Palmolive Company, a United States corporation.

12. Although this Committee is not primarily interested in Colgate-Palmolive Company, as such, please allow me a moment to provide you with some facts about that corporation merely to establish the roots of our Company here in Canada.

13. The origins of Colgate-Palmolive Company go back to 1806 when William C. Colgate started a soap and candle business in New York City. His business grew and prospered over the years primarily due to his then unique policy of providing quality and service. From this beginning, Colgate-Palmolive has grown to where it now employs 26,000 men and women and in 1965 did $862,000,000 in world-wide sales.

14. The success of the Company in its world-wide operations is based upon another firmly established policy, one that has been scrupulously maintained over the years. A basic element of that policy is that subsidiary companies are independent organizations and not mere branches of the parent Company.

15. Colgate-Palmolive Limited is one of these companies. Its history here in Canada goes back more than 50 years. In fact, the Canadian Company was the first venture outside the U. S. for the parent company.

16. From its beginning in this country in 1913, Colgate-Palmolive Limited has grown with Canada to the point where, today, it provides employment for more than 800 men and women in our Toronto Head Office, at our plant in Toronto and our warehouses and sales offices throughout the country.

17. Over the past 50-odd years, Colgate-Palmolive Limited has shown steady growth and has been a good corporate citizen of Canada, contributing its share to the country's economy and growth.

18. There are no inter-relationships between Colgate-Palmolive Limited and any Canadian Company other than those which are normal and customary between manufacturer, supplier and customer.

19. We are sure that the Committee will be interested in certain of our arrangements with the parent Company. We have available to us all trade marks and all patents. In addition to our own facilities in Toronto, we have access to research and development centres in the United States, England, France and Italy. In addition, without being exhaustive, we have available to us, specialized engineering services, computer specialists, manufacturing specialists, market research facilities and market research information. For all of this, we pay a sum of approximately $250,000 a year.

20. There are no other royalties, fees or commissions paid to the parent company.

BUSINESS OPERATIONS

21. Our business is the manufacture and distribution of soaps, detergents, household products, toilet preparations and glycerine for the Canadian household and industrial markets. Our sales force, which operates nationally, calls upon more than 22,000 customer accounts each quarter. Included in that number are

approximately 1,600 corporate chain stores, 9,000 voluntary chain stores or co-operative groups, some 4,500 industrial accounts as well as the independent wholesalers and retailers across Canada.

22. While we vigorously solicit business from the industrial community, not only by manufacturing glycerine, but by supplying soaps and cleaning compounds to hotels, the military services, factories, hospitals and other institutions, our primary concern and the focal point of our marketing effort is the Canadian consumer. In her hands, rests the responsibility for the care and cleanliness of the family and the family home. It is to satisfy her demands that the bulk of our market research, product development and sales energy is directed.

23. Our growth over the years and the continued acceptance of our products is due entirely to our complete and intense concern for the needs of our ultimate customer, the consumer. Without a constant and continuous study of her needs, we would not have enjoyed our growth and would, in fact, have gone out of business a long time ago.

24. In an effort to be of the greatest possible assistance to this Committee, we have attempted in this brief to answer as many questions as possible in a manner that shares with you our awareness, interest and our knowledge of Mrs. Canadian Consumer.

25. Throughout these hearings, Mrs. Consumer has been, and will undoubtedly continue to be, mentioned. Since she could very well mean different things to different people, it is only proper that we reveal to this Committee what our company, from its long experience with her, has learned about her and the way she reacts in the marketplace so that there will be a clear understanding of the context in which we use the term "Mrs. Consumer" in this presentation.

26. First of all, we have found Mrs. Consumer to be competent, able, and most aware of her needs in the marketplace.

27. Our experience has proven without question that she has a will of her own, that she possesses a wealth of knowledge built up from her own personal experience, and that she constantly draws upon this accumulated knowledge to make her marketing decisions.

28. We know that she can and does measure value in terms of many factors, of which price is only one.

29. We know, without any question whatever, that although our advertising, couponing, sampling or other promotions may motivate her into purchasing or trying a product once, she will not buy that product again if it does not meet the personal qualifications and standards that she herself has set for that kind of product.

30. How does she develop competence in this complex activity of purchasing food and cleaning products for her home? We constantly research this question. After all, housewives are rarely formally trained to be good shoppers.

31. In most cases, young women learn some of the basic elements of running a household by helping out around the family home. In addition, they may receive home economics training in school where they learn weights, measures and techniques. Even with this, we know they are rarely completely prepared for the problems of housekeeping when they are first married.

32. To satisfy the obligations imposed by her new responsibilities, the new housewife is forced to do what anyone in an uncertain situation is forced to do: experiment. Her way of developing competence in her own eyes and in the eyes of her family is by experimentation.

33. She experiments on the various brands available in the marketplace until she finds the one that provides the results she considers the best for her and her family.

34. We have asked housewives to tell us how they actually went about determining whether a selected product was or was not a bargain.

35. They explained that they determined whether the product provided the desired quality, whether it yielded the desired result, and whether it supplied all of the other factors of perfume, texture, etc. required by them or their families—and, then, price entered into the picture. If it resulted in a saving of money, it was a bargain.

36. However, if they had to pay extra, they then reexamined the product to see if it offered more convenience, better measurable results, or even better aesthetic satisfaction than the other known products—and if it did, they concluded that the cost of the added quality or convenience was worthwhile. That is, they considered whether it was worth it from their own family's point of view and if they decided it was, they bought the product again. If they decided it was not, then they simply did not buy it again.

37. It is this constant experimenting by Mrs. Consumer that is her technique of adding to her knowledge of satisfactory products needed for her home and of determining acceptable cost for the value received from those products.

38. It means that Mrs. Consumer fully understands her own needs and problems and that she wants and demands variety and choice.

39. She rejects over-simplified solutions. She does not want anything to limit her choice or her flexibility of action. Mrs. Consumer sees that flexibility of choice and action as a measure of her own competence in filling the wants of her family. This is the key to her career as a homemaker. She wants to be competent in that career—not constrained.

40. As you can see, in trying to define the term "Mrs. Consumer", what we have really shown is that there is no single definition that will do justice to all of the thousands of Mrs. Consumers who take part in creating consumer demand. While they all may be generally motivated by the same basic needs, desires and experiences, those needs, desires and experiences are different in their emphasis and directions for each Mrs. Consumer. This is why one prefers Brand A and the next prefers Brand B or C.

41. It is in direct response to her requirements that Colgate has created a variety of effective, efficient and specialized household cleaning items which have served to reduce her daily cleaning chores and helped free her time for the better enjoyment of her family and her friends, as well as the many amenities of our modern society.

42. The products to which we refer consist of laundry and dishwashing detergents, liquid and powdered cleaners and cleansers, toilet soaps and the like. If you will refer to Schedule 2 at page 2 of the second binder, you will see the percentage share of the consumer market enjoyed by our company in each of the classifications of heavy-duty powdered detergents, light duty liquid detergents, household cleaners—both liquid and powdered—abrasive cleansers, toilet soaps, food wraps and room deodorants.

43. As you can see from Schedule 2, we so not dominate any one of these fields,—we have several competitors who compete with us across the nation. Nevertheless, these categories which are of prime interest to this committee constitute approximately 70 per cent of our total business.

44. Our company—and in fact our entire industry—has always attempted to provide satisfaction, not to any particular consumer but to the great variety of Mrs. Consumers across the country.

45. This continuous assessment of the Canadian consumers' needs has resulted in a flow of new and improved products. Of the hundreds of national brands marketed by our industry in Canada today, only a handful existed at the end of World War II.

46. Having provided you with the facts concerning the organization and general policies of our company and with our viewpoints concerning the Canadian consumer—permit me now to respond directly to the eleven questions submitted by this committee.

(1) COMPARATIVE FINANCIAL STATEMENTS FOR THE PERIOD 1960 TO 1965, INCLUSIVE SHOWING GROSS SALES, MARGINS, COST OF RAW MATERIALS PURCHASED, SALARIES AND WAGES, OPERATING AND SELLING EXPENSES AND NET PROFIT

47. Schedule 3, at page 3 of the second binder, presents in dollars the comparative profit picture of our company for the years 1960 to 1965 inclusive. We have shown both dollars and percentages for easy reference.

48. Important to the enquiry being conducted by this committee is the fact that in the six-year period 1960-1965 increases were experienced in every area of costs, raw materials, packaging materials, wage rates, freight, advertising, taxes, etc. For example, wage rates have gone up by 23 per cent from 1960 to 1966, freight charges involved in delivering our products to our customers went up by 46 per cent in the same period of time.

49. We have shown on Schedule 4, at page 4 of the second binder, a comparison of average hourly wages of our factory personnel as well as a recapitulation of freight charges over this period. Packaging costs will be referred to later in the brief. This Schedule 4 shows the 23 per cent increase in hourly pay to which I have just referred.

50. To counteract these increases in operating costs our company has engaged in an intensive cost reduction programme. As a part of this programme, value analysis task forces have been assigned to apply their talents for the purpose of reducing product costs, principally raw materials and packaging costs. Referring back to Schedule 3, it is significant to note that through programmes such as this, packaging materials expressed as a percent of sales were reduced from 14.2 per cent in 1960 to 9.7 per cent in 1965. Our objective is around 9 per cent for 1966.

51. Our capital expenditures programme was accelerated to improve our productivity and further automate our manufacturing operations, thereby reducing labour costs per unit despite an increase in hourly rates. Modern, high speed equipment was installed for manufacturing, filling and labelling our products. New material handling devices were acquired in our warehouses across the country, to permit mechanical loading and unloading of box cars and trucks and faster and more accurate filling of customer orders.

52. Other programs were initiated by our research and development department to produce more effective and, at the same time lower cost formulas. The purchasing department was able through long term contracts to secure more advantageous prices resulting in materials cost reductions.

53. We have engaged professional consultants to work with our own personnel in a distribution analysis aimed at reducing our all important freight and warehouse expense.

54. We have just recently installed the most advanced generation of electronic computers to enable us to realize further gains in operating efficiencies and most important, improvements in the area of customer service.

55. The successful completion of these projects is playing an important part in permitting us to prevent—or at least to delay—increases in selling prices which otherwise would have been necessary.

56. While this information indicates the significant problems of increased cost which have affected our operations and the measures used by our company

to combat them, Schedule 5, at page 5 of the second binder, goes to the heart of the matter, namely, to indicate how these increases have affected our prices.

57. This schedule indicates price changes to retail and wholesale customers in the eighteen-month period ending November 1, 1966. During this period there have been no increases in the price of toilet soaps, one increase in the price of powdered detergents amounting to less than 2 cents a carton, and one increase of less than 1 cent a box for Ajax scouring cleansers, but, in liquid detergents there was a price decrease of 9 cents a bottle.

58. As a matter of fact, I think you would be interested in studying not only prices in recent months but prices over the entire reference period of this presentation from January 1, 1960 to date.

59. During this time toilet soaps increased a total of 27 per cent, but this, you know, is dependent upon the fluctuating world market price of tallow, coconut oil and other basic materials. Powdered detergents, however, on a per-ounce basis now sell at exactly the same as their 1960 price, scouring cleansers have increased only 6 per cent over their 1960 price, all-purpose cleaners have increased only 2 per cent over the price at which they were introduced in 1962; and most of our liquid detergents are selling at the same price as they did in 1960, with Rose Lotion Vel, our largest selling brand now selling at 87 per cent of its 1960 price.

60. This record shows that our prices have, in general, on a cost-per-ounce basis to the trade, not increased over this period of time. I am sure you realize that what I am talking about is our selling prices to the retail and wholesale trade. These prices, in 1966, are essentially the same as they were in 1960 and in some cases lower. This is a result of free competition in a highly competitive market.

(2) SHOW SEPARATELY ANNUAL ADVERTISING EXPENSES INCURRED AND THEIR RELATIONSHIP TO GROSS SALES FOR THE SIX-YEAR PERIOD. SHOW DETAIL SEPARATELY FOR (A) DIRECT AND (B) CO-OPERATIVE ADVERTISING EXPENSES.

61. In Question 2 you ask for annual advertising expenses and their relationship to gross sales for the six-year period. Although this information is included in Schedule 3, you also ask for detail showing, separately, direct advertising expenses and co-operative advertising expenses.

62. Here in Schedule 6, at page 6 of the second binder, we have provided answers to the question and, in addition, have included further information which we believe will be helpful to the committee. Advertising expenses in 1960 amounted to 10.6 per cent of gross sales. Of this, 7.4 per cent consisted of amounts spent in media, that is, newspapers, magazines, radio, television, etc. In addition, we classify under direct advertising, coupons, samples and instore displays.

63. Coupons are certificates either delivered to the consumer or packed in a box of our product entitling the holder to a price reduction on her next purchase of that particular product. Samples, obviously, are given away. We do quite a bit of sampling on our new products. We also provide instore display material and posters.

64. In 1960 these three types of advertising amounted to 1.3 per cent of total sales. Our co-operative advertising expense, in the same year, amounted to 1.9 per cent.

65. By 1965 the amount expended on advertising had grown to 16.1 per cent of sales or, in dollars, from $3,243,000 to $5,522,000. In that year, 9.8 per cent of this expenditure was for media, 3.9 per cent for coupons, samples and display material and a further 2.4 per cent for co-operative advertising.

66. A natural question to ask is, why did we increase our advertising from 1960 to 1965 not only in dollars but as a percentage of sales? There are three reasons. Firstly, the cost of each segment of advertising increased significantly during this period. Secondly, we have been advertising new products under an expanded new product programme which did not exist in this company in 1960, and thirdly, it is necessary to continue to support our older and growing vital brands.

67. You realize, of course, that our products are directed to the national consumer, and that advertising performs the indispensible functions of informing Mrs. Consumer of the existence of our products, of the attributes of our products, either new or old, and it stimulates a continuing consumer interest in these products. Were it not for sales secured through advertising, we would not have a market position. We would lose revenue and with it the ability to pay for improvements to our existing products and the ability to develop and introduce new products. In short, there would be no progress, rather retrogression.

68. It takes money to advertise and Schedules 3 and 6—you will find Schedule 6 at page 6 of the second binder—indicate how it affects our profits. We would not advertise to the extent that we do if we did not consider that the expenditures were of significant value. We are similarly convinced that advertising is the best way to ensure growth and lower costs. To the extent that market shares are not maintained or improved, unit costs will increase and the product will fail and be withdrawn from the market or the added cost will be borne by the consumer.

69. Previous witnesses before this Committee have emphasized the fact of increases in advertising costs; such increases were not a matter of our choice. Radio cost is up approximately 15 per cent, the CBC television network cost of prime time is up 25 per cent. Spot television advertising has increased even more—45 per cent, and, in the area of print media, newspapers have increased 19 per cent; Weekend magazine, 35 per cent; Reader's Digest, 34 per cent; and Chatelaine, 18 per cent. Details of these facts and figures are set out in Schedule 7, at page 7 of the second binder.

70. The reason for the remaining increase in advertising expenditures lies in introductory advertising of new products, as well as our sustaining advertising for older brands. We are now marketing 23 products that did not exist in 1960. 33 per cent of our sales today, or $11,000,000 is derived from products that were not even on the market in 1960.

I might just add here that we have discontinued older, slower selling products at the same time. We have one sales force selling all of our products so that, when we bring a new product out, we usually discontinue one of the smaller, slower selling products.

PRODUCT INNOVATION

71. We consider it pertinent to the Joint Committee's enquiry to make it aware of Colgate's product development and marketing research programmes. One of the phases of marketing research is to communicate with the housewife, in person, by mail or telephone in an attempt to isolate her preferences respecting existing products and to gather ideas for new products. Once an idea for a new product is formulated, it is fed into a highly organized six-phase programme of new product development that may take a period of time from months to years in development.

72. Every effort is made by marketing research to maintain contact with the consumer. Consumers participating in our research programmes are selected in accordance with established projectable panel sampling techniques to provide a broad cross-section of reaction of the whole group.

If you want to have a product, you have to have an idea to talk about first. Therefore, we refer to this early stage in the life of a product as the product concept.

73. At the product concept stage, new ideas are sought from the consumer groups which are guided into areas of discussion by trained moderators and then left alone to allow normal conversational interaction to take place. Generally, two or three such sessions are held on each subject. These are tape-recorded and the results analysed by the professional moderator. The sessions last two or more hours. The analysis of the session may take ten hours or more.

74. Once a product concept is defined, it is tested for quantitative acceptance by means of specially designed questionnaires presented by interviewers to representative cross-sections of the population. Up to one thousand individuals may be interviewed in the course of such a survey.

75. We have a full-time staff of 10 interviewers conducting interviews five days a week in Toronto. We also have a force of 100 interviewers functioning in more than 20 centres of population from Vancouver Island, British Columbia to St. John's, Newfoundland. This coverage is required because no one section of the community is represented of the entire country.

76. The questionnaire is then processed through computers and, assuming that there is a positive reaction to the idea, the next stage—product prototype —may take place in our own research and development department or in the larger research and development facilities of our parent company. Assuming that a product is forthcoming, a further consumer test known as a blind or unidentified product test is used.

I would like to point out that where we have an idea for a product we discuss that idea with consumers. If there is a positive reaction then we get some idea of the type of product pluses the consumers want built into the product. After that we go to the research developers and ask them if it is possible to produce.

77. This test is conducted by supplying several hundred consumers with the actual product, identified only as to function, for trial under normal conditions in the home. This would be, for example, a laundry product which they try in their homes. These women rate the acceptability of the product on a prepared score card, preferably rating this test product against a standard product. These cards are analyzed and if such analysis reveals that the new product is preferred by the majority, the test may then be repeated several times to determine which combination of ingredients best measures up to the demands of the consumer. Given positive consumer direction and reaction, further tests are conducted, including tests for brand name, package shape, package colour, product colour, product perfume, advertising and the other remaining elements of the product mix.

78. Finally, the product will be the subject of a broad consumer study to determine usage habits and attitudes. This may involve up to 3,000 interviews across the country and take several months to formulate, tabulate and report.

79. Of 80 concepts initiated in this manner usually only three or four actually see the light of day as a product. All of the remaining ideas or concepts will fall by the wayside at one stage or another.

80. A product or product concept may founder in the research stage because research cannot produce what is called for due to technical limitations. On the other hand, once developed and the new product has reached the test market stage, it may not receive the broad favourable consumer reaction which the

surveys indicated was there. With very few exceptions, all new products are tested in actual market situations. These are usually city or area tests where we can experience the actual marketing of a new or improved product.

81. Although this may have seemed like a lengthy explanation of the procedures involved in putting a new product or product improvement on the market, it is only through these testing procedures that we can learn to avoid costly mistakes and satisfy Mrs. Consumer. Even with these testing procedures, only a few products that reach the national market are successful. This would appear to prove conclusively that advertising alone does not create a market. A market is created by a consumer need or desire, a quality product which satisfies this desire, and the consumer's willingness to buy the new brand again and again.

82. It is clear that Mrs. Consumer is not only our customer, she is our business and if we do not satisfy her, we will not stay in business.

PRIVATE BRANDS

83. This would seem to be an appropriate time to deal with the subject of Private Brands. While Private Brands are available in the major food outlets across Canada, they do not command a significant share of the total market in any of the categories in which we compete. One reason is that they are not innovators, they never lead, they only follow to fill a need already found, explored and developed by manufacturers of national brands. Private Brands exist only by reason of the work done by the manufacturers of national brands and they must, therefore, rely more heavily on price appeal for acceptance.

84. There is a considerable question about quality, about the value of one product versus another. We know that Mrs. Consumer makes her choice on the basis of value as she perceives value. Just as we originally stated, value is not an absolute standard, it is not the same for all consumers. It is a highly personal thing involving a great many important factors in addition to the tangible elements of price, quality, content, colour and perfume. These include such factors as confidence in the reliability of the product; confidence in the manufacturer; confidence in the quality and consistency of the product. Of additional significance is her experience with the product as to convenience, simplicity and economy of time in actual use.

85. If all consumers had the same idea of value, I am sure there would be but one brand on the market, and if price alone were the only standard of value, the cheapest product would become the only product available. Our experience tells us that consumers do not make their value judgments the same way and that certainly they do not make them on the basis of price alone. It is a highly personal decision which each Mrs. Consumer makes for herself.

86. We know that the lower-priced products exist in the marketplace and that a number of consumers will continue to make their value judgments primarily on the basis of price. Our experience indicates that there are significant differences between the lower-priced products and those that are nationally advertised. However, consumers buying the lower-priced products or private label brands will be largely unconcerned with these differences.

(3) SHOW THE COST OF CONTAINERS AND OTHER PACKAGING MATERIALS FOR THE PAST SIX YEARS AND SHOW THEIR PERCENTAGE RELATIONSHIP TO GROSS SALES.

87. Packaging must serve a number of purposes, not only to protect the goods which it encloses but to provide easy identification by the customer in the store. It must carry instructions and information as to the use of the contents and, in many cases, the specific quantity to be used by the housewife. Most important, packaging must not add unnecessarily to the cost of the product.

88. Schedule 8, at page 8 of the second binder—shows the cost of containers, wrappers, labels, corrugated cartons and everything we use for the years 1960 through 1966. You will note that while all but one cost item listed on the schedule have increased in price over the past six years, the total cost of containers and other packaging materials has reduced as a per cent of sales from 14.2 per cent in 1960 to 9.7 per cent in 1965, and we are hopeful of reducing this to 9 per cent in 1966. The cost per thousand for labels and cans, etc., is shown at the top of Schedule 8 above, and then, below, we have the gravure rolls and the printing plates. Everything has gone up except one item, and that was poly bottles for liquid detergents; that is the one that has gone down. This is the result of the cost reduction program we spent some time on earlier in the brief.

89. While we are discussing this subject, let us consider an area of packaging which is of interest to this Committee.

90. Manufacturers have often been accused of permitting an unwarranted and unwanted profusion of packages to appear on the market—packages designed to confuse consumers and, in conjunction with fractional weight markings, to make it difficult for her to calculate the value per unit. These problems are separate and distinct.

91. The first assumes that the manufacturer is able to compel the consumer to purchase products in a size she does not want. This assumption calls for a further equally false assumption that the consumer is confused by the variety of sizes presented for her consideration.

92. Our experience is exactly the reverse. We have found the consumer to be an expert in shopping. She determines which package size and which price best fits her requirements and budget. Our experience indicates that if we furnished a size that meets no need, that package will not last on the grocer's shelf. One of the ever-present threats to the manufacturer is the retailer's delisting of a product or product size. Simply stated, this is the decision by the retailer that he will no longer carry one of the manufacturer's products because it does not move in sufficient volume to justify allocated shelf space. Major food retailers have computerized systems which constantly pinpoint the slower-moving sizes of any listed item. Delisting follows when a product or products size fails to find acceptance by the housewife. The only packages that stay on the shelves are those that fill a functional need.

93. The question of fractional weight markings gives rise to quite another set of considerations. You will see on Schedule 9, at page 9 of the second binder, the brand names, package sizes and net weights of our household cleaner as requested by question 10. You will particularly note that it is packages of powdered detergents and cleaners that bear odd weights. The chief reason for this situation is one that has already been explained to this Committee by other witnesses. Some products have greater density than others.

94. Only products of equal density occupy the same space and permit a standard size. Finally, it is possible to achieve economies of production by utilizing one packaging line instead of several and economies in inventory by restricting the variety of package shells required.

This is a one-pound box of ABC detergent, and this is a one-pound, four-ounce box of Ajax detergent, and they are exactly the same size. They are full to the same line, one being a lighter product than the other. The same is true of the giant size. This is a two-pound box of ABC detergent, and this other is a two-pound, ten-ounce box of Ajax. (Indicating detergent samples).

95. It is possible to standardize sizes or standardize weights. Either will cost money but we cannot do both. There is nothing in this area that will result in the reduction of prices to "Mrs. Consumer."

(4) HOW DO YOU DETERMINE THAT YOUR SALES PRICES ARE COMPETITIVE?

96.—The answer to question 4 is very simple. Our field salesmen are in the stores every business day. We keep track of our competitors' prices through field reports submitted by our sales people. In addition, if our prices are out of line for any length of time, the consumer tells us so and stops buying our product. We have no established profit margins at Colgate, but we do not continue to market an unprofitable item. In the light of intensive competition in the soap and detergent field, it simply would not be possible to charge non-competitive prices and stay in business.

97.—You have indicated an interest in a comparison of prices with those in the United States. While our prices are above those in the United States, there are economic explanations for this. Certain raw materials are not available in Canada and have to be imported with resulting increased cost. The same applies to certain packaging materials. In addition, there are fewer raw and packaging material suppliers in Canada. Let me assure you, however, that this does not result in higher profits to our company. Our profits in 1965 shown in Schedule 3, were 3.1 per cent of sales and an examination of the parent company's consolidated annual statement for 1965 shows that its margin was 3.3 per cent of sales.

(5) WHAT IS YOUR SALES POLICY RESPECTING SPECIALTY ITEMS INVOLVING PREMIUMS, CERTIFICATES REDEEMABLE BY THE CONSUMER, CENTS-OFF DEALS, ETC.?

98.—We use consumer incentives in the form of premiums, coupons, cents-offs offers and other incentives as the marketing situation of a particular brand dictates it. The marketing principle underlying the use of these incentives is the consumer's continuing search for something new and better. They are constantly experimenting with new and different products. Many consumers are not regular users of any particular brand but prefer to trust their own experience when shopping within a category. Promotional incentives assist consumer choice and experience has shown us that they are effective in stimulating both the short and long term demand for our products.

99.—Coupons are an effective means of obtaining consumer trial of a product. These may be distributed as an inpack item—that is, in one of the cartons—or by direct mail, or by house-to-house hand delivery, and they are redeemable anywhere at face value against the purchase of the brand being promoted. In turn, our Company redeems these coupons at full face value plus a handling charge to the retailer. Couponing is really only valid when used with high quality products where trial by the consumer will lead to repeat purchases. Our Company uses coupon incentives frequently.

100.—"Cents-off"—"eight cents off" on Ajax, for example—are sold to the trade as such; that is, the full stated discount from retail shown on the package is deducted from the normal wholesale price of the product. The full consumer price reduction is a direct expense to Colgate. The purpose is to encourage the retailers to pass on this saving to the consumer and thereby attract new consumers to our products.

101.—Premiums, while used infrequently, are intended to stimulate consumer interest in general. A premium, for example, may be a cellulose sponge taped to the side of a bottle of liquid cleaner, say something like Ajax liquid cleaner where the premium is usually related to the product. We do not use them very often, but we use them for a restricted period of time where market conditions indicate the desirability of such promotion. We have no continuous premium promotions. The cost of these on-pack premiums is entirely borne by the Company and give added value to the consumer.

(6) SHOW QUOTATIONS AT F.O.B. PLANT SALES PRICES PER UNIT OF SOME OF THE PRINCIPAL PRODUCTS OFFERED DURING SELECTED WEEKLY PERIODS IN 1965 AND 1966

102.—This question really does not apply to our particular business since we sell nothing f.o.b. plant but all goods are sold at delivered prices. They do not vary from week to week since they are not influenced by the short-term fluctuation of prices as a result of the harvest season and the like. For example, Schedule 10, at page 10 of the second binder, shows prices of three of our products during the last week of each quarter of the eighteen-month period we used earlier. Variations in prices during these periods result from differences in consumer or trade incentives. The exceptions are the price increases which we have already discussed. So our prices do not change from week to week.

(7) WHEN VOLUME SALES ORDERS ARE INVOICED, IS THE BILLING NET OF ALL DISCOUNTS OR GROSS LESS DISCOUNTS?

103. Sales invoices are billed net of all discounts except in certain instances where some of our customers ask us to accumulate discounts and pay them at quarterly or other periods. We are happy to accommodate ourselves to the wishes of these customers. Our published price lists govern our prices and we have no volume incentive discounts, or any special discounts whatsoever that are not offered in a proper manner, to all in the trade.

(8) DOES YOUR FIRM PACK FOR WHOLESALERS' OR RETAILERS' PRIVATE LABELS? IF SO, WHAT VOLUME PERCENTAGE OF SOME SELECTED ITEMS WERE PACKED IN THIS MANNER IN COMPARABLE PERIODS IN 1965 AND 1966? WHAT ARE THE DIFFERENCES BETWEEN THE PRIVATE LABEL BRANDS AND THE NATIONALLY ADVERTISED BRANDS?

104. Colgate-Palmolive Limited does not package private label brands for any retailer or wholesaler. We find it necessary to utilize our production capacity for producing our own branded goods.

(9) SELECT TEN MAJOR COMMODITIES (SPECIFICALLY INCLUDING DETERGENTS) MANUFACTURED BY YOUR FIRM IN 1966. IN EACH CASE, DETAIL THE APPROPRIATE MANUFACTURING AND SALES COSTS INVOLVED SUCH AS RAW MATERIALS, DIRECT WAGES, PACKAGING, WAREHOUSING, ADVERTISING, SALES EXPENSE, PROFIT, ETC.

105. Schedule 11, at page 11 of the second binder, lists ten products in the household products field and, to make the schedule more meaningful for the Committee, we have this time, detailed what these products cost in terms of percentages. We have listed the product names across the tops of the columns. Take, for instance, the first column, which is Palmolive Soap. You will note that the current raw material cost is 25.2 per cent of sales, packaging 5.8 per cent, direct wages 3.4 per cent, with the other items as detailed. You must realize, of course, that selling expense and marketing expense are arrived at from our books and pro rated over all products. Administrative and Other is also pro rated in accordance with our established system of internal accounting. Palmolive Soap, an older established product, with which you are all familiar—a standby of the company—earns a profit of only 1.6 per cent after taxes.

106. The second column is Fab powder, and you will note the same comparison is made here.

107. The third column perhaps, deserves more comment. This is Ajax Laundry Detergent, a new product introduced regionally across Canada in 1964. Introductory advertising expense is heavy and we are currently losing money on this product. However, Ajax Laundry Detergent is gaining a greater market share and we expect this profit situation will shortly be improved.

108. The next product is Rose Lotion Vel—most of you will be familiar with this—and it deserves some comment because this is a reintroduction—an improvement on an old established brand. Accordingly, heavier advertising expenditures are required to acquaint the public with the new and improved features of this product presentation.

109. I do not believe that Encore Liquid, Ajax Cleanser or Ajax Floor and Wall Cleaner, require further clarification. Ajax Liquid Cleaner, Florient and Baggies—Baggies is a plastic food wrap which I am sure you have all heard about and this is Florient in a new fragrance of room deodorant that we have put out—the last three products, are produced for us by other Canadian suppliers. We, therefore, cannot give the same detailed information about them but I have included them to show you the relevant figures which can be compared with those of other products.

(10) PROVIDE A LIST OF ALL HOUSEHOLD CLEANERS, SUCH AS SOAPS AND DETERGENTS, MARKETED IN YOUR COMPANY FOR THE RETAIL TRADE SHOWING THE TRADE NAMES AND THE PACKAGE SIZES IN TERMS OF NET WEIGHT.

110. We have not omitted Question 10. That was answered earlier where it fell more logically into this brief.

(11) IS IT TECHNICALLY FEASIBLE TO IDENTIFY HOUSEHOLD DETERGENTS AND SIMILAR PRODUCTS IN TERMS OF "UNITS OF CLEANING POWER?"

111. The answer to question 11, concerning the technical feasibility of identifying units of cleaning power, is definitely no. There are too many differences—in the soil to be removed, the material to be cleaned, the hardness of the water used,—it varies significantly across Canada—and the temperature of that water. For powdered detergents, each of the national manufacturers give the same directions "use from ½ to 2 cups." To date, we have not been able to give a better or more universal unit of cleaning power to the consumer.

112. We have endeavoured to answer all of the questions put to us by the Committee as fully as possible. However, our presentation would not be complete if we did not apprise you of some of the industry's achievements in technical innovation and product improvement that have been beneficial to the consumer.

RESEARCH AND DEVELOPMENT

113.—Prior to 1946, when Colgate-Palmolive Limited introduced Vel, the first synthetic powdered detergent, in Canada, household cleaning products were made from soap. Soap has two major drawbacks; firstly, it reacts with the metallic elements of hard water. This is responsible for the well-known grey, unclean appearance of clothes washed with soap in hard water. Secondly, soaps are decomposed by acids and must be alkaline to be effective as cleaning agents. Most dirts, by the way are acids.

114.—Synthetic detergents, in general, are not precipitated by hard water nor inactivated by acid. These are the reasons why they have almost entirely supplanted soaps in household cleaning products. Vel powder was designed for hand washing dishes and lightly soiled fine fabrics. It was neutral to make it less irritating to the skin than the alkaline products then formulated for machine washing of heavily soiled fabrics.

115.—Heavy duty detergents closely followed the light duty powders and were quickly successful despite many early imperfections. Research and development led to the commercial production of new and better household cleaning products and continued with increased intensity with a succession of improve-

ments in performance, quality and manufacturing efficiency. These products were developed with properties and advantages just not present in soap.

116.—Heavy duty detergents have undergone many changes for the better. The surface active component which produces foam and penetrates into the fabric to displace and then emulsify greasy soil, has gone through numerous progressions of improvement in functional properties, colour and odour, recently culminating in the widely publicized biodegradeable type which will be used throughout Canada by the end of 1966.

117.—The "builders", as they are known, have progressed from the types which provided little more than high alkalinity, to materials which control alkalinity for optimum detergency, de-flocculate soil particles to keep them in suspension—that is, to break them up in tiny particles—and sequester the metallic elements in hard water which interfere with cleaning efficiency.

118.—Anti-redeposition agents are now included which are remarkably effective in repelling soil from fabric surfaces once it is removed from the fabric. Electrostatic charges are built up on the fabric, preventing the dirt from redepositing on the cloth.

119.—Increasingly effective fabric brighteners have been incorporated into powdered detergents to give cloth a brilliant whiteness. These brighteners absorb light in the invisible ultra-violet range and convert much of the energy of this light into visible light of longer wave-length having subtle variations of hue to meet the varying preferences of housewives. Consumers prefer different hues: pinks, yellows and blues, and there are different brighteners in our products and those of our competitors.

120.—The same thing has been true in liquid detergents, which, for all practical purposes, have displaced the light duty powders. There are many reasons for this change, in that liquid detergents are not dusty, they can be packaged, coloured and perfumed more to the liking of consumers. They have also been developed to a stage of extreme mildness to hands producing abundant stable foam and high grease-cutting efficiency. Vel powder is still used on the prairies where there is extremely hard water, but it will be phased out and discontinued probably next year. The liquids have replaced these powders, and they can be packaged, coloured and perfumed easily.

121.—Scouring powders have been improved through a number of stages, from the first Colgate cleansers that rapidly captured a dominant share of the market—to a formulation containing a stabilized bleach of almost unlimited shelf life. This was a patented development, one of which Colgate is very proud, and just recently we have successfully added a second bleaching agent to our product, Ajax Cleanser, to give it even greater bleaching and disinfectant qualities.

CONCLUSION

122.—I have endeavoured to answer the questions presented to us and trust that the answers will be of some assistance to the Committee in its deliberations. Now, if there are any questions, I will try to answer them.

Co-Chairman Senator CROLL: Will you commence, Mr. Urie?

Mr. URIE: Mr. Beeson, I would like to refer you to Schedule 3 first, and conduct a short examination of your financial statements. Have you with you, sir, copies of your balance sheets?

Mr. BEESON: I have the balance sheets with me.

Mr. URIE: I wonder if you would file them?

Mr. BEESON: Yes.

Mr. URIE: What I am particularly interested in are your gross sales and net profits before and after taxes related to sales as percentages. You have not given us any figures as to the percentage of net profit related to your investment.

Mr. BEESON: That does show on the balance sheet. The rate of return is on the balance sheet.

Mr. URIE: Could you give us those figures for the five year period?

Mr. BEESON: Yes—the rate of return on the investments?

Mr. URIE: That is right.

Mr. BEESON: It is a little complicated. I have done it in three ways, and I will explain them. The accepted way, which is the first sheet our financial people prepared, shows 12.6 in 1960, 8.5 in 1961, 11.4 in 1962, 12.7 in 1963, 10.1 in 1964, 8.1 in 1965, and 7.5 in 1966.

This is the way our comptroller says it should be done, but this is only true for Canada when it has the subsidiary dividends included in it. It does not give you a true picture of the rate of return on our investment in Canada. I do not have the subsidiaries' sales and investment included in here. These are the West Indies subsidiaries and those in the Near East, and there are no subsidiaries operating in Canada.

Mr. URIE: But you do have subsidiaries whose figuries are included in your consolidated returns.

Mr. BEESON: No, sir.

Mr. URIE: How are those figures calculated?

Mr. BEESON: This is capital and surplus and then divided into profits.

Mr. URIE: What is the second?

Mr. BEESON: I asked the financial people to do a second one, that is, to take those dividends out of our surplus and to recalculate the value of our real estate to our profit, and it is 7.3, the same thing; so it does not, really make much difference.

Mr. URIE: 7.3 in 1966?

Mr. BEESON: 1966. We did not go back to the other years. If you take out the dividend for all the years and use it on a depreciated value of the assets it stays at around 10 per cent for each year.

Mr. URIE: Would you repeat that again? If you leave the dividends from your subsidiary companies and calculate your return, including depreciation—

Mr. BEESON: Using the depreciated value the return is 10 per cent.

Mr. URIE: And that is roughly the same figure over the period 1960 to 1966?

Mr. BEESON: Yes.

Mr. URIE: Now, are those figures before taxes or after?

Mr. BEESON: This is profit, after tax.

Mr. URIE: After tax. You are in the 52 per cent corporation tax category.

Mr. BEESON: Yes.

Mr. URIE: So it is roughly doubled. Now, what dividends have you paid to your parent company during the period from 1960 to 1966?

Mr. BEESON: In 1960 we paid the parent company a declared dividend of $600,000. In 1961, $1,100,000; in 1962, $1,030,000; in 1963, $1,750,000; in 1964 $2,353,000. We did not declare any dividends to the company in 1965.

Mr. URIE: And 1966?

Mr. BEESON: $1,000,000 early this year.

Mr. URIE: There will be another dividend before the end of the year?

Mr. BEESON: We really don't know, we haven't really decided.

Mr. URIE: Why was there no dividend paid in 1965?

Mr. BEESON: We just kept the money here and invested it in short term notes in the bank.

Mr. URIE: At the beginning of 1966 what were your total investments in short term securities?

Mr. BEESON: Approximately $6 million.

Mr. URIE: In short term securities?

Mr. BEESON: Yes.

Mr. URIE: Is the income from those securities shown anywhere in the figures you have produced to us?

Mr. BEESON: Mr. Winter says they are included under Administrative and Other.

Mr. URIE: But those which are under Administrative and Other are surely not receipts, but disbursements, expenditures, are they?

Mr. W. R. Winter, Vice President, Finance, Colgate-Palmolive Limited: A combination of expenditures and revenue to the extent of interest income.

Mr. BEESON: So this would be a net figure of expense.

Mr. URIE: What do "Administrative and Other Expenditures" cover?

Mr. BEESON: Sales department overhead, administrative salaries, advertising management salaries, market research expense.

Mr. URIE: Would you give us those figures then, sir, your expenditures for Administrative and Other broken down for the years 1960 to 1965, as well as the income from your investments which have been set off against those figures during the same period, so that we can find out how you arrived at the net figures shown on that heading under Schedule 3? Is the $6 million figure which you referred to as your investment the same in 1966 as at the end of 1965?

Mr. BEESON: Less the $1 million we declared this year.

Mr. URIE: But that would be more than counterbalanced by your net profit acquired during the year which after taxes was about $1,078,000.

Mr. BEESON: That was 1965.

Mr. URIE: Excuse me, that was 1965. Do you have your 1966 figure yet?

Mr. BEESON: No, because the fiscal year is not over.

Mr. URIE: You will have it at the end of the calendar year.

Mr. BEESON: Yes.

Mr. URIE: In addition to the dividend payments made and in addition to setting off your income from your investments you also made payments to your parent company on an average of $250,000 a year for the various items referred to on page 4.

Mr. BEESON: Yes.

Mr. URIE: How is that $250,000 arrived at?

Mr. BEESON: The international people in New York determine the total cost of international supervision and the specialists who move around the world over the year. Then they take the total cost and divide it up as a percentage of sales for all the companies that participate in those services.

Mr. URIE: So presumably this is in some way related to the sales of those individual subsidiary companies; is that right?

Mr. BEESON: That is right.

Mr. URIE: There will be a total expenditure for these various items of your international division prorated to the various companies on the basis of sales?

Mr. BEESON: Yes. The reason for that is, I assume, that the larger companies would use more of the services and that the smaller ones would use less. Some of the smaller ones do not even have factories.

Mr. URIE: Is there any way in which they accurately determine the value of the services which have been rendered to your company in any one year?

Mr. BEESON: I do not think so. We call them at any time and they are available to us.

Mr. URIE: They are available to you and do you in fact call upon those services?

Mr. BEESON: Oh, yes.

Mr. URIE: Do they volunteer those services in fact more than you call upon them?

Mr. BEESON: No.

Mr. URIE: It is possible to determine from your statistics the number of occasions upon which you found it necessary to call upon your international division for services say in 1965, to determine the value of the services rendered to your firm?

Mr. BEESON: I would think in our firm—I have a record of them—chemical engineers, mechanical engineers, computer specialists, yes.

Mr. URIE: The idea being that you have $250,000 chargeable as an expense item before calculation of profits?

Co-Chairman Senator CROLL: Subsidiaries?

Mr. URIE: Mr. Beeson said they had two minor subsidiaries.

Mr. BEESON: No, there are eight subsidiaries, but they are small Caribbean subsidiaries and do not participate in our profit figures in Canada at all.

Mr. URIE: They had two minor subsidiaries?

Mr. BEESON: There are eight subsidiaries, but they are small Caribbean subsidiaries which do not participate in our business in Canada in any way.

Mr. URIE: But they do contribute dividend payments to your net income?

Mr. BEESON: That is right, but they are not included in our profit. The figures shown are just for the Canadian company.

Mr. URIE: Could you give us the figures for those subsidiaries—the dividend payments by your subsidiaries to you during the period in question?

Mr. BEESON: I do not have them here, because I did not think it made any difference to this committee, but I can submit them.

Mr. URIE: It makes some difference to the overall picture.

Co-Chairman Senator CROLL: What are the names? You have the names?

Mr. BEESON: I have the names.

Co-Chairman Senator CROLL: Let us have them.

Mr. BEESON: Barbadoes, Costa Rica, Guyana, Jamaica, and Trinidad.

Mr. URIE: Those are all wholly-owned subsidiaries of the Canadian company Colgate-Palmolive Limited, your Canadian company?

Mr. BEESON: Yes.

Mr. URIE: So you will provide us with your sales figure?

Mr. BEESON: Dividends, yes.

Mr. URIE: I was interested in looking at your figures, to note that your growth sales in the period 1960 to 1965 increased by approximately 12 per cent. Your advertising expenses have increased approximately 70 per cent in the same period, part of which, if not all of which, was explained by your presentation. I was more particularly interested in noting that the cost of advertising—it was

not possible for me to determine from the figures that you have given us, accurately—the cost of advertising appears to have gone up on an average of about 29 per cent. So it means that your overall increase in advertising expenditures was about 30 per cent. How do you explain that? What is your explanation of the difference between the increase in sales being only 12 per cent while the approximate cost of advertising has gone up 30 per cent in the same period?

Mr. BEESON: Part of the problem, and it is a problem, is the fact that a new products program did not exist in these earlier years. Additionally, the products now in test are not generating the sales which they will generate in 1967 and 1968, and the advertising expenditure is high in relation to those products, because it is a test or regional situation, much out of proportion to what it would be on a national basis.

We have certain products like Baggies, where we are educating the consumer to a new convenience item. There is a heavy expenditure required to make the convenience of it known, and it is just growing or building all the time.

Mr. URIE: What do you estimate that the first three years of a newly introduced product costs, in advertising and promotion, over and above what it would normally cost after it has been on the market for that three year period?

Mr. BEESON: It varies. In absolute dollars, it would vary between the categories. It would depend on the frequency of use and the volume of the total category you are getting into.

Mr. URIE: That is all I can ask for.

Mr. BEESON: Generally, we try to have a new product pay back all its investment in the second year, so that we can make money in the third year. We would lose money in the first year, we would make about that much in the second year and in the third year we would make money.

Mr. URIE: If it does not make it, you obviously take it off the market?

Mr. BEESON: We do.

Mr. URIE: On page 19, paragraph 81, you made a significant remark in dealing with product innovation, I believe. You said:

> It is only through these testing procedures that we can learn to avoid costly mistakes and satisfy Mrs. Consumer . . . This would appear to prove conclusively that advertising alone does not create a market.

I do not quite follow that statement, in the light of what you have just told us with respect to the cost of advertising in the first year of the two or three years during which a newly introduced product exists on the market.

Mr. BEESON: It goes back to what we feel is the basic function of advertising, of making the consumer aware of the product being there at all, making her aware of the product performance and the efficiency of that product. So the job of advertising is not necessarily to create a market but to tell her that this is available. When you are starting from the ground at zero it takes more messages to acquaint them of this fact.

Mr. URIE: Is not that really an exercise in semantics, as to whether you are creating the market by virtue of advertising or whether it is simply acquainting her with the attributes of the particular product?

Mr. BEESON: I may not have made myself clear. We found in our research that there was a general need for Baggies and that the women would like to use them, so in the test we advertise to show how to use the product, instructional advertising. We set about to air these commercials, we make her aware of the fact that this product is available.

Mr. ALLMAND: Mr. Beeson, someone had the impression that new soap products or cleaners are put on the market from time to time like a new automobile, that there is not much difference from one name to another name but there is

competition in having two different names. Is it the case that you have to keep up with a competitor who comes out with a new name in the soap field, such as K-25 and therefore another competitor must come out with another name that has an appeal, another sales gimmick.

There is an allegation that there is not really that much difference in the product. Is this true? Are all of these products that much different from one another, is there that much distinction between them, or is this competitive sales promotion with new names and new gimmicks, which consumers are paying for in sales promotion and advertising? This is a question I had put to me by consumers and I put it to you.

Mr. BEESON: I think, honestly and sincerely, that the detergent business is so big—women are purchasing probably 18 packages of detergents a year, that she would find out very quickly that you had misled her if what you said the product had in it or what you told her was not true. The effect of brightness to you may not seem important, but if you compare the shirts that your wife washed in 1946 with the shirts she washes today, you would see a big difference in brightness. To a man, that may not seem important, but it is to a woman.

Mr. ALLMAND: So your answer is that there is a real distinction in every one of these?

Mr. BEESON: I honestly believe there is a reason for the new products brought out by our industry.

Mr. ANDRAS: As a supplementary, do you know of any instance where the sales of a particular product started to fall over a period of time, so that you are required to make a decision to do something about it. Do you know cases in the business—not necessarily in Colgate but in any of the companies—where companies have taken some product, changed the name and brought out the same product under another name, without any substantial change of the ingredients or the quality?

Mr. BEESON: No. There are instances where you have a product, where sales are falling. Then you revitalize it by improving the product and then re-advertise and re-introduce and improve sales. I do not know of any cases where a known product has failed, the name changed to something else and the product re-introduced successfully.

Mr. ALLMAND: On Schedule 9, toilet soaps, I see you sell it in weights of grams. Why do you do this, when everything else is in ounces and pounds?

Mr. BEESON: We included toilet soaps there because Dr. James asked for all the household items. We do not mark weights on toilet soap. The reason we use grams in manufacture is because that is more accurate than ounces. The reason we do not mark toilet soap weights is because when toilet soap is made it is doughy and very malleable and must be forced through machines called plodders and stamped. As it ages or dries it loses the moisture in it at the time of manufacture. If you take a soap which has a high moisture content in it, six months from then it will be a lot lighter. There will be no less soap but there will be less water. The soap will still have the same value. If we marked the toilet soaps with the weight it would be misleading and confusing, because the weight changes with age.

Mr. ALLMAND: That is to say, the grams you have on that table was given more or less for our own information?

Mr. BEESON: They go by "regular" and "bath" in the stores and are comparable across the industry in size.

Mr. ALLMAND: On Schedule 3, I notice that your total wage bill for 1960 to 1966 is down and also that the percentage of expense is down. Is this due to automation?

Mr. BEESON: Yes.

Mr. ALLMAND: In spite of the fact that your wage rates are going up, your total wage cost is down in 1966.

Mr. BEESON: Yes.

Mr. ALLMAND: Would that be picked up in the third item? I presume that the word "margin" means factory overhead margin. Is that correct? I am referring to Schedule 3; you have "salaries and wages" and "factory overhead", and underneath that you have the word "margin" indented. Now, I notice that margin has gone up from 23.7 per cent to 28.4 per cent, or from a little over $7 million to a little over $9 million.

Mr. BEESON: That is what is left when you take the expenses shown on Schedule 3 above the "margin" line from Sales.

Mr. ALLMAND: I see.

Mr. BEESON: You have the margin left, and then you deduct the selling, administrative and advertising expenses and you get your profit before taxes; then you get your taxes and profit after taxes.

Mr. ALLMAND: If your wage bill has gone down that amount despite increasing wage costs, what would be your labour force in 1966 compared to that of 1960?

Mr. BEESON: That is a tough one, because currently we are running 24 hours a day and in most cases seven days a week. But, just from memory, over the years we have gone from approximately 1,100 people in the company to 800 currently.

Mr. ALLMAND: I see. I have one further question. On page 24 you state that some of your products are more expensive in Canada than in the United States because packaging materials are more expensive in Canada owing to the fact that they are not available in Canada.

Mr. BEESON: That is right.

Mr. ALLMAND: This is surprising, because we produce so much paper and cardboard. What packaging materials would have to be imported?

Mr. BEESON: We do not use any imported packaging material, but the paper, for example, that the cigarette people use, or their cardboard, is pure sulphite. It is very strong board and a lighter gauge of it will give the same strength in the package as a heavier gauge of some other type of board. This is terribly expensive in Canada, though, because it is produced in the United States. Another example is silex. I do not have a sample of that here, but it is the basic ingredient in the container for Ajax Cleanser. Again it is not available in Canada. The United States company pays $9.60 a ton for silex. We pay $16.46 a ton because it has to be brought in to Canada from the United States and there are freight charges and duty charges on it.

Mr. ALLMAND: Do you know if the raw materials for these products originally come from Canada, go the United States to be processed and then come back here as the finished product?

Mr. BEESON: I do not think silex does. It comes from the midwest some place.

But I have here several examples that I would like to show you. I did this primarily because I knew you were interested in this aspect of the business. We, therefore, spent some time preparing figures. For example, for Fab and Ajax Detergent cartons the United States company pays $17.24 a thousand and they order two million at a time. In Canada we pay $25.60 a thousand and we order in three hundred thousand lots. Our smaller market accounts for the difference.

Mr. ALLMAND: You cannot get those boxes in Canada?

Mr. BEESON: Yes. We pay more for these. We pay $25.80 in Canada, whereas in the United States they pay $17.24 for the same box per thousand. Again, we pay $5.52 per thousand for soap wrappers using foil, and in the United States they pay $3.12 for the same wrappers.

Generally, I went through everything that we use in terms of raw materials and corrugated boxes et cetera, and I came up with about a 10 to 20 per cent differential that we pay on our raw packaging materials over what our company pays in the United States. I then compared our prices with a United States price list. From that I worked it down on a cost per ounce basis for our principal products and compared those with our own prices; and on Ajax heavy duty—this product which I am holding in my hand—it varies across the different sizes, but, generally, we are about 10 per cent above the price in the United States.

Co-Chairman Senator CROLL: Just while you are on the subject of Ajax, what is the five-pound retail price in the United States?

Mr. BEESON: I do not have retail prices.

Co-Chairman Senator CROLL: Do you have the retail price for the two-pound package?

Mr. BEESON: I do not have any retail prices at all. I have our price to the trade in the United States and our price in Canada to the trade. I compared those.

Mr. ALLMAND: What paper box company do you buy those boxes from?

Mr. BEESON: We buy from several different companies. I do not know which companys we buy these from.

Mr. ALLMAND: Fine. With respect to your "cents off" policy which you refer to in your brief at page 26, do you have that printed right on the package?

Mr. BEESON: Yes.

Mr. ALLMAND: For example, on the box you have beside you there is marked "8 off", I believe.

Mr. BEESON: Yes.

Mr. ALLMAND: How does the consumer know that that eight cents is off a standard price, or is this just a sales gmimick?

Mr. BEESON: As far as we are concerned it is not a sales gimmick. We have tested a lot of different kinds of promotions, and, generally, the price-offs are the most effective.

Mr. ALLMAND: That may be so, but I am asking if in fact the eight cents is off a standard price. If so, what is that standard price and how does the consumer know she is getting eight cents off a standard price? We have heard allegations that the eight cents off becomes the standard price and it is just a gimmick to sell things.

Mr. BEESON: I do not think that happens in our business.

Co-Chairman Senator CROLL: The price on this box is 46 cents, and it is marked eight cents off. That means that the consumer pays eight cents less than 46 cents?

Mr. BEESON: It depends on the store in which you are shopping, but I suggest that this probably means that the standard price was 54 cents.

Co-Chairman Senator CROLL: That is what Mr. Allmand is getting at. It is confusing. I am not a shopper, but, for example, if I were to go into a store and see that box marked 46 cents and then notice that it was marked eight cents off, I would expect to get eight cents off the 46. I can add and I would want my eight cents off. Yet you say that that is not so.

Mr. BEESON: Yes. In the stores across Canada that I have checked, generally, where it is marked eight cents off, the standard price would be marked on the shelf strip. Usually that would be, say, 54 cents. The consumer then sees that the box is marked 46 cents and she knows that it is eight cents off 54.

Co-Chairman Senator CROLL: That does not appear on any of these items we have before us, which we have been able to handle.

Mr. BEESON: No. I was referring to the shelf strips in the stores.

Co-Chairman Senator CROLL: Oh, I see.

Mr. ALLMAND: This is off the retail price. I see at page 24 that you say you go around to the different stores checking on retail prices all the time. You also say that the retail price, if it is too high will affect your sales. That is obvious. Do you have any control over retail prices?

Mr. BEESON: No. It is illegal to maintain retail prices. No, we do not have any control. The stores have a price book which they publish at regular intervals, and the price contained in that book is what they are to sell the product at. The managers of these stores get their instructions from the head office.

Mr. ALLMAND: You say in your brief that some retail stores sell your products at a high price; that, despite your prices on packages, they are being sold high, and, as a result you are not selling as much as you would like. What do you do with respect to such retailers? Do you go to see them?

Mr. BEESON: There is not much that we can do, but I am sure that the other retailers in direct competition with them would find out, because retailers have men going to their various competitors to check on each other, and, where one store has Fab or Ajax at a price disadvantage, the others will do something about it, because they are just as anxious as we are to see the consumer satisfied. I think they would get their prices into line.

Senator O'LEARY (*Antigonish-Guysborough*): Mr. Beeson, of the total world sales of Palmolive, your company in Canada does about 4 per cent. In other words, of 862 million your company is doing approximately 34 million.

Mr. BEESON: Yes.

Senator O'LEARY (*Antigonish-Guysborough*): I presume that the major portion of this 862 million is in the United States. Is that right?

Mr. BEESON: I do not really know. The estimate is not broken out that way. Perhaps I can find it for you. Yes. Last year the subsidiaries overseas, other than domestic, did $462 million. Therefore, the balance would have had to be done in the United States.

Senator O'LEARY (*Antigonish-Guysborough*): Approximately what percentage of the total Canadian sales of products similar to yours do you feel that you have? What percentage of the Canadian market in similar products do you feel that your company has in Canada?

Mr. BEESON: That information is on Schedule 2. We have shown the market shares for each of the categories of our major products. The heavy duty powder would be the laundry products. Is that what you mean?

Senator O'LEARY (*Antigonish-Guysborough*): Yes. Well, what does it all work out to?

Mr. BEESON: This is a percentage. We have 16 per cent of the total powdered detergent market in Canada. We do it with brands like Ajax, Fab, ABC and Encore. On light duty liquid products, such as Vel Lotion, we have 8 per cent of the total business being done in Canada. These are Canadian figures.

Senator O'LEARY (*Antigonish-Guysborough*): All right.

Co-Chairman Senator CROLL: You have told us that you keep track pretty well on what your competitors are doing. Is it fair to say that Colgate's, Procter

and Gamble and Lever Brothers have 90 per cent of the domestic detergent and soap business in Canada?

Senator O'LEARY (*Antigonish-Guysborough*): This is what I was seeking.

Mr. BEESON: I think 90 per cent is too high, senator.

Co-Chairman Senator CROLL: All right, what do you think is not too high?

Mr. BEESON: The reason I am having a problem with the figure is that the brands we measure, the major brands, of the three companies, would amount to 85 per cent of the total business, but we do not measure the regional brands and private label, so we have to reduce the total market by that amount, so it is not fair to say it is 85 per cent of the total market because we do not measure that part. I suppose a good guess would be 70 to 75 per cent. That is just a guess.

Co-Chairman Senator CROLL: Mine was not so much a guess, but I am prepared to take yours, since you do not agree.

Senator O'LEARY (*Antigonish-Guysborough*): My next question has to do with your explanation on page 24, the last paragraph, comparing the cost of these products in Canada versus the United States. You state there, for example, that in 1965 your net profit margin before taxes was 3.1 per cent as against your parent company's 3.3 per cent of sales. Now, what would the American figure be before taxes?

Mr. BEESON: That is not available to me.

Senator O'LEARY (*Antigonish-Guysborough*): Why do some of your customers, in your opinion, ask you to accumulate their cash volume discounts?

Mr. BEESON: I am pretty sure the reason is because they have different departments, a merchandising department as opposed to a purchasing department, and they have to operate within a departmental budget, so that this money can be accumulated and sent into the merchandising area. There is no problem with it, as far as we are concerned.

Senator O'LEARY (*Antigonish-Guysborough*): You would not suspect for a moment that they would not want to pass the discount on to the consumer?

Mr. BEESON: No, because you set up your promotions ahead of time and these moneys are channelled in through the merchandising manager, and our salesman knows about it and so does the merchandising manager.

Senator O'LEARY (*Antigonish-Guysborough*): It is entirely upon a request from them that this is done?

Mr. BEESON: Yes.

Senator O'LEARY (*Antigonish-Guysborough*): They do not, in return, ask you for any interest on these accumulated funds?

Mr. BEESON: No, we do not keep them that long.

Senator O'LEARY (*Antigonish-Guysborough*): I am interested in Encore here. How long has this been on the market?

Mr. BEESON: About five years.

Senator O'LEARY (*Antigonish-Guysborough*): Do you have another product in the five-pound bag?

Mr. BEESON: No.

Senator O'LEARY (*Antigonish-Guysborough*): You used to have one with large letters on the bag, 99 per cent pure soap.

Mr. BEESON: I do not think that was ours.

Senator O'LEARY (*Antigonish-Guysborough*): You had another one in addition to this that was available in the Maritimes as recently as three years ago, soap flakes.

Mr. BEESON: Not ours.

Senator O'LEARY (*Antigonish-Guysborough*): Then I will send you a sample of a bag.

Co-Chairman Senator CROLL: I do not like asking you this question, but would you, as president of the company, say you do not know what that sells for in the retail store?

Mr. BEESON: I have a recap of retail prices which I had done for me by the salesmen in Toronto and one price recap from Montreal.

Co-Chairman Senator CROLL: All right, give me the Toronto and the Montreal price.

Mr. BEESON: On what product?

Co-Chairman Senator CROLL: On that bag.

Mr. BEESON: On Encore?

Co-Chairman Senator CROLL: Yes.

Mr. BEESON: It does not sell very well in the east; where they do not take too well to Encore. $1.39, I think.

Co-Chairman Senator CROLL: That is right, $1.39.

Mr. BEESON: That is what it says on here. (Indicating Encore bag on exhibit.)

Co-Chairman Senator CROLL: Is that your figure on Encore.

Mr. BEESON: I do not have a figure on Encore. They did not take Encore.

Senator O'LEARY (*Antigonish-Guysborough*): This is a heavy-duty detergent. Do you consider it a good economical buy?

Mr. BEESON: Yes, it is a good buy.

Senator O'LEARY (*Antigonish-Guysborough*): How is it going in relation to your packaged items?

Mr. BEESON: Not very well.

Senator O'LEARY (*Antigonish-Guysborough*): I wonder why?

Mr. BEESON: It sells fairly well in the west, but not very well in the east. I think it is because not that many women are interested in buying something that is inexpensive and not that easy to use. These cartons are very easy to poke a hole in the side of and pour it out of, but this (Encore) sells for less because it is not in a box.

Senator O'LEARY (*Antigonish-Guysborough*): Would you say you put the same effort into the advertising promotion of that item as the others?

Mr. BEESON: One of the worst things I have done in the last two years was to undertake a heavy promotion, advertising and sales effort test behind Encore in the west, and it went nowhere.

Mr. SCOTT (*Danforth*): Mr. Beeson, I want to explore with you for a few moments three of the main complaints we have from consumers. The first is the sizing of your products. The second is what I think are gimmicks to sell them. And the third is the common complaint of the good old Canadian air that is in your detergent boxes.

Co-Chairman Senator CROLL: Mr. Scott, would you raise your voice, because it is hard to hear you up here.

Mr. SCOTT (*Danforth*): Yes, Mr. Chairman, but I am sure I will raise it in a moment, anyway.

Mr. Beeson, let us take toothpaste. I went into the Dominion store and your toothpaste, the 238-gram size, was selling for $1.33, the 162-gram for $1.09, the 82-gram for 63 cents and the 44-gram for 39 cents. First of all, you need a magnifying glass to find the grams on the box, but this is the pricing. Housewives have complained to us that they just cannot afford the time or do not have a

calculating machine to sit down to try and figure out comparable figures. I did it this morning and it took me nearly 20 minutes, and I am a bad mathematician. Even then I am not sure of my figures. Why cannot you put out toothpaste which is the same commodity in containers that give the housewife some meaningful way of comparing dollars?

Mr. BEESON: No. 1, we are changing to ounces, and we sent that order out nine months ago at least, and as these plates wear out and are being replaced we are converting to ounces. That is itself will be easy. I suppose that grams is something we have grown up with, but we are changing to ounces on all tubes of toothpaste.

On the question of size, there again, the small one—which is called "large"—used to be the largest size available, and it was a certain size, and you have millions of tubes and cartons out there. As our society began to develop and became more affluent and had more money to spend and larger families, we brought out a bigger size, the giant size. This size was five ounces with savings on cost per ounce, and this is the sort of thing that has grown up over the years.

Actually, all the major manufacturers of dentifrice have standardized and weights are comparable across the different competitive brands, so that if Colgate Dental Cream is selling for $1.33 and Pepsodent for $1.33 they are comparable in the same size.

Mr. SCOTT (*Danforth*): You are ducking my question. I am not concerned with comparable sizes between different manufacturers' products, but with the housewife going into a store and trying to decide which Colgate toothpaste is the best buy. You have not answered me as to why you cannot put your stuff out in terms the housewife can calculate. For example, 238 grams and then 162 grams, that is crazy.

Mr. BEESON: But we are changing to ounces.

Mr. SCOTT (*Danforth*): Are you going to change into ounces where multiplication can take effect or have 1.4 ounces, 2.10 ounces? There is no meaningful way of comparing them.

Mr. BEESON: It will be the translation of grams back into ounces, because of the standardization across the whole line of tubes you have and the machines you have.

Mr. SCOTT (*Danforth*): Would you be prepared to undertake to lead the way in this field and put out your products, for example, in 200 grams, 100 grams, 50 grams—something that can be easily multiplied in the housewife's mind?

Mr. BEESON: We would certainly look at it.

Mr. SCOTT (*Danforth*): This is a hopeless mess. Is there any reason you could not do it?

Mr. BEESON: I do not know. I will have to talk to the engineering people on the tube filling machines and the high speed cartoners that fill the cartons. There is a lot involved.

Mr. SCOTT (*Danforth*): We have raised this before and we have never got an answer from your industry. It leaves us with the strong presumption that that is nothing but a gimmick to confuse the housewife.

Mr. BEESON: I have not done a cost per ounce analysis across the sizes of Colgate dental cream for several years, but as I remember it the large sizes always constitute a savings to the consumer over the small sizes.

Mr. SCOTT (*Danforth*): That is a statement you made, but there is no way by which the housewife can verify it. Will you undertake to make a study of it?

Mr. BEESON: I certainly will.

Mr. SCOTT (*Danforth*): My next point is in respect to gimmicks in packaging. This morning I went out and bought five bars of your good old

family soap, and they had a face cloth with them. How much would the face cloth cost?

Mr. BEESON: I do not know, I will guess that the face cloth cost about a nickel.

Mr. SCOTT (*Danforth*): They, you sell three bars at 41 cents, which works out to 13.6 cents a bar. The five bars with the face cloth cost 15.6 cents a bar. So, you are making ten cents more on this package. What you are really doing is using a gimmick to make more money—that is, unless, there is some big difference in the soap.

Mr. BEESON: I do not know what you have got there.

Mr. SCOTT (*Danforth*): These three bars are called Mild Palmolive Gold Anti-bacterial Deodorant Soap.

Mr. BEESON: Yes, three bars at 6 cents off.

Mr. SCOTT (*Danforth*): I paid 41 cents for them. There is no way of telling whether it is six cents off. I paid 41 cents for the three bars. Then, I bought five bars of New Palmolive White enriched with olive oil and the package says "Special offer: Free face cloth", and I paid 78 cents for them.

Mr. BEESON: Yes.

Mr. SCOTT (*Danforth*): And then there is this flimsy piece of dish rag, or face cloth, attached. This is what the housewife complains about. The three bars at 41 cents work out to 13.6 cents a bar, while the five bars at 78 cents work out to 15.6 cents a bar. So, you make 10 cents more, and yet you say it costs you only a nickel for the face cloth.

Mr. BEESON: I do not make 10 cents more. In the first place, I did not set the retail price.

Mr. SCOTT (*Danforth*): What I am suggesting is that that is nothing but a gimmick for gouging the housewife.

Mr. BEESON: I said earlier that cents off offers are more successful than any other kind of incentive, but as a change of pace from time to time you bring in these premiums. You could not buy that face cloth for a nickel in a retail store, or even a dime, or whatever is the extra amount there. That is one reason why we use price-offs more often than we use package premiums.

Mr. SCOTT (*Danforth*): Of course, they are successful, but they are absolutely meaningless to the housewife. For example, I bought a package of your Fab this morning. On the package it says 40 cents off. I paid $1.43. I tore off the label and underneath was another label saying $1.35. They did not even have the courtesy to take the other price off before they put the new one on. 40 cents off looks delightful, but one does not know what it is off. One has no idea of what the standard price is. I know that a 40 cents off deal is successful, but I suggest to you that it is nothing more than a miserable gimmick to promote sales, and it has no meaning to the housewife. What is your comment on that?

Mr. BEESON: A price check I made just recently on king sizes—this was on November 21—

Co-Chairman Senator CROLL: King sizes of what?

Mr. BEESON: Heavy duty detergents. It showed that across the board all brands of king sizes were selling at $1.83, and Fab was selling for $1.43, which is 40 cents off.

Mr. SCOTT: How does the housewife know that? It almost requires the exercise geometry to go into a supermarket and try to find out what the original price might have been, or what the five cents, or whatever it is, was off. Is there nothing your industry can do to make your prices—

Mr. SMITH:—intelligible.

Mr. SCOTT: Yes. You get more bad publicity or ill will from the housewife because of this kind of thing than from any other. Is there no way by which you can undertake some kind of a study in order to come up with a pricing system that means something?

Mr. BEESON: This Fab has a specially reduced price in the price spot. Does the package you have show that?

Mr. SCOTT: This has two prices on it, one over the other. The price was $1.35 and then they jacked it up to $1.43. I do not know. They stuck another label on top.

Co-Chairman Senator CROLL: They probably saw you coming.

Mr. SALTSMAN: They see everybody coming.

Mr. SCOTT: Could you undertake some study? Could you undertake to do some investigating in this general area?

Mr. BEESON: Yes. I do not know really what we can do because this is in the retail area, but there may be some way of marking a 40 cents off package.

Mr. SCOTT: Yes, so that the housewife knows what the 40 cents is coming off.

Mr. BEESON: I really do not know how we can do that because we do not set the retail price. It would be complicated for the retailer. He would have to have a longer price sticker showing the regular price of $1.83, and then less 40 cents, and a net price of $1.43.

Co-Chairman Senator CROLL: Gillette does it. They show the price of their razor and the price you have to pay. I know what it means.

Mr. SMITH: The retailers have told us, as you no doubt know, that they do not like this particular system because it causes bad will with their customers who do not understand what price the amount is off.

Mr. BEESON: Let us look at it. It would have to be in the way of a banner or a price sticker on the shelf, or by way of some sort of marking on the carton itself, saying that the price on this box includes the 40 cents off. It would have to be something like that.

Mr. SCOTT: That is why I say it is nothing more than a gimmick which sells your product, but—

Mr. BEESON: It definitely is a price reduction to the consumer, and if that sells more goods then that is a successful promotion.

Mr. SCOTT (*Danforth*): Other testimony before this committee bears out what you say, so I will leave it. Now, this is a box of Fab. I took it off the shelf. I know that it has been in transit and in a warehouse. However, I shook it up and down and got it nice and loose, and when I opened the box I found it a third empty.

Co-Chairman Senator CROLL: What is the weight of that? I think it says it is five pounds.

Mr. SCOTT (*Danforth*): Yes. The box is a third empty now. This is a common complaint. What is your explanation?

Mr. BEESON: When that is filled in the factory the detergent goes in to just barely below the top of that carton. It is filled just enough for the electric eyes, and so that the air jets that blow off the empty packages will not blow detergent upon the top flaps which are there for glueing. The cartons are filled as much as it is possible to fill them. In the journey from Toronto by truck to the warehouse here, and in the handling from the warehouse to the retailer's shelf—the detergent is made up of little hollow beads, and they become crushed and settle down on top of one another. The detergent also picks up moisture. It is like the cereal products. The density of the product in that package is much greater than it was when it was packed. It is now taking up less space, but there is five pounds in that box.

Mr. Scott (*Danforth*): You can see the problem a housewife faces when she opens a box and finds that half the contents are air?

Mr. Beeson: That is the nature of the product.

Mr. Scott (*Danforth*): Is there no way of ensuring that the box is full when the consumer buys it?

Mr. Beeson: That would create tremendous problems in the factory. We run 24,000 pounds of detergent through our tower in an hour. The product is super dried and the king size machine will take all that that detergent tower will turn out. You would have to set the packages down somewhere unglued, and if you did that they would get full of dirt. There would be huge costs involved.

Mr. Scott (*Danforth*): You say that there is no way of packaging this stuff so that the package is full when the housewife opens it?

Mr. Beeson: Not to the best of my knowledge, no sir.

Mr. Scott (*Danforth*): Could you give us an explanation of the differential between the wage rates of the male and female employees? I refer you to schedule 4 where you show the hourly-paid rates for male and female employees. In each category in every year there is a very substantial differential. I am wondering why that is so.

Mr. Beeson: The girls perform very light duty tasks, and the men are generally—well, you have your skilled men in here too—the plumbers, electricians, mechanics and machine operators. The girls are performing light duty tasks.

Mr. Scott (*Danforth*): In the case of where they are performing similar work are they paid similar rates?

Mr. Beeson: I do not think the girls are ever doing the same work the men are doing.

Co-Chairman Mr. Basford: My questions are along the line of Mr. Scott's. We have had manufacturers before us who have said that they have discontinued the use of cents off selling or merchandising because it is impossible to get away from confusion as to what the regular price is. I take it that you say that that is not correct?

Mr. Beeson: We have not found it to be the case in our products, no, sir.

Co-Chairman Mr. Basford: Like Mr. Scott, I did some shopping also, and this refers to toothpaste. I will give seven examples, one of which is the small one, a giant one, one of which indicates the regular price at 69 cents and a suggested retail price of 63 cents and three which are all the same size, one of which shows a regular price of $1.19, a special price of $1.07, or 12 cents off, another with the regular price of $1.19, with a special price of $1.09, which is 10 cents; and another which has no markings at all.

Mr. Beeson: That would be $1.19 then.

Co-Chairman Mr. Basford: And another which shows a regular price of $1.49, a special price of $1.33, and the same, a box, which had a regular price of $1.49, and a special price of $1.29. Now, first of all, which is the best buy?

Mr. Beeson: The best buy is the $1.29 super size.

Co-Chairman Mr. Basford: In support of the contention that it is impossible to maintain in these cents off deals, what the regular price is, this toothpaste was all bought in the same store at the same time. I have not worked this out mathematically, but the two packages that were listed at a special price of $1.19 were actually sold for 99 cents. This was a corner drug store, not a supermarket or a discount store, or anywhere else. That is 20 cents less than what you call the regular price. The one that was marked with a special price of 63 cents was sold for 60 cents. This seems to me beyond a shadow of doubt that the regular price marked on there of $1.49 has really no relevance at all.

Mr. BEESON: I agree with you, in that store, where he is obviously discounting; but that situation you found in that store should not exist because the price offs on a particular size are sold for a limited period of time, and then you go back to straight stock, which has the word "confirmed" there in the middle, and then you will probably come out with another size or a different kind of promotion. You should not have, at least it it is our objective that you would not have, different kinds of deals on the same size of a product in a store at the same time. I agree with you.

Co-Chairman Mr. BASFORD: But that surely confirms the whole objection to cents off markings. In another way, here is a store that is carrying all these different sized packages all marked at different prices, and I suggest that these happened to be all bought at the same time and that the girl was terribly confused when she saw the different prices on them and so charged me the least. So I suggest that if somebody had taken in the "confirmed" package which has a price on the package of $1.09, they would have paid $1.09, rather than 99 cents, which is what I did.

Mr. SMITH: Which one is the $1.09?

Mr. BEESON: Straight stock, "confirmed" carton.

Co-Chairman Mr. BASFORD: I bought it at a drug store for 99 cents.

Mr. BEESON: That situation should not have happened. We try only to have one particular offer on a particular size at any one time on the grocery shelves so that does not happen. That is a particular case that you do not see very often, and I am sorry you found it, as a matter of fact.

Co-Chairman Mr. BASFORD: This is a leading drug store in Ottawa.

Mr. BEESON: I can't understand how he got it, because some of those deals are old deals obviously, and they change from time to time. Sometimes these sort of deals occur some time apart.

Mr. URIE: How often do you change the deals?

Mr. BEESON: It really depends on what we are trying to do with a product. With deals on Colgate Cream, my objective, anyway, is to have a deal only for two months, and then you get interest from the consumer, and you would sell about two months stock, in one month at the special, and then go back again to straight stock.

Mr. URIE: How long do you leave it on?

Mr. BEESON: Until you see a softening of the market share, and then you would change.

Co-Chairman Senator CROLL: Do you find this confusing (indicates exhibit)?

Mr. BEESON: Yes; that should not happen.

Co-Chairman Senator CROLL: But it is confusing, is it not?

Mr. BEESON: Yes, it is.

Co-Chairman Senator CROLL: If the president finds it confusing, what to you think the consumer finds it?

Mr. BEESON: I would have to agree with Mr. Basford that that situation in that single store would be confusing and we certainly don't like it that way.

Co-Chairman Mr. BASFORD: Let me ask you this about the two super sizes. There were no other super sizes available, and one is specialed at $1.33 and another at $1.29. What happened to the regular size?

Mr. BEESON: Obviously he just had those two specials. One is an older special than the others, I know that. I don't know when they were sold, I could look it up, but I am sure they were apart at the time they were offered. He may have bought a big supply because it was a good special. They do that sometimes for Thanksgiving weekend, or "Bay Day" sales; they hold it and bring it out may be months after we have sold it to them.

Co-Chairman Mr. BASFORD: The other one—I don't know what size you call it.

Mr. BEESON: Sixty-three cents.

Co-Chairman Mr. BASFORD: The regular price is 69 cents and specialed at 63 cents, and yet he sells it for 60 cents, which would indicate that your special is not such a special after all.

Mr. BEESON: He is obviously discounting it, which is good for the consumer, even more than the price off that we gave him.

Co-Chairman Mr. BASFORD: Which would indicate to me that this special off does not really mean anything. If the price off is so meaningful it would be very difficult for him to go under it, I would think.

Mr. BEESON: Well, you have gone to a store where obviously he is doing a good discounting job to attract consumers from other stores, but generally in Ottawa that product would have been for sale at 63 cents at that time, and the price would have been marked 63 cents. Generally there are not that many discounters around here.

Co-Chairman Mr. BASFORD: But this is not a discount store.

Mr. BEESON: No, but there are not many in the Ottawa area who would discount a product like Colgate Dental Cream. They normally sell it at full market.

Co-Chairman Mr. BASFORD: Like Mr. Scott's example, I think it confirms what some of the manufacturers have said to us, that the cents off are confusing, expensive to the retailer, confusing to the market, in that it is absolutely impossible to maintain what in fact the regular price is. It was impossible to buy one at the regular price, which as I say indicates to me that the regular price mark on the package is meaningless.

Mr. BEESON: Obviously this store does not have the regular price. It has specials on it from time to time.

Co-Chairman Mr. BASFORD: Why do you, with toothpaste, have a regular price marked on it but not on the special detergent packages?

Mr. BEESON: Because toothpaste does not follow like detergents do across the country. Detergent products, because of their weight, vary tremendously in price from the Maritimes to Vancouver, but toothpaste is basically the same price across the country, and it is easier to mark at the going regular price.

Co-Chairman Mr. BASFORD: It seems to me that this verges very closely to the Combines Act, when something is marked at the regular value of $1.19 and it is impossible to buy it at $1.19 in fact, you get it for 99 cents.

Mr. BEESON: That is in that one store. You can go to another store and buy it at $1.19—in many stores, I am sure.

Co-Chairman Mr. BASFORD: Thank you.

Mr. O'KEEFE: Mr. Chairman, I have a short supplementary question in connection with the couponing of some of the products. You allow 10 cents a coupon?

Mr. BEESON: Yes.

Mr. O'KEEFE: You also allow the retailer an additional charge of two cents?

Mr. BEESON: Right.

Mr. O'KEEFE: In effect, when you take off 40 cents you take off more from the retailer?

Mr. BEESON: No, just the 40 cents.

Mr. O'KEEFE: So you allow an extra profit on the 40 cents difference.

Mr. BEESON: No, he just gets the full 40 cents on the price we charge.

Mr. O'KEEFE: Does that apply all the way down the line on the cents off prices?

Mr. BEESON: Yes.

Mrs. MACINNIS: I was going to ask Mr. Beeson whether he still stands by his statement on page 22: "This assumption calls for a further equally false assumption that the consumer is confused by the variety of sizes presented for her consideration." Do you still stand by this, after listening to these many consumers?

Mr. BEESON: Yes, madam.

Mrs. MACINNIS: Then let me ask you one or two questions. Why is it that toothpaste is marked in grams and tooth powder is marked in ounces?

Mr. BEESON: It is part of the whole mix-up that I explained a minute ago. A lot of these items in that area were marked in grams and I have asked that that be changed to ounces. It may be that the plates on the Colgate tooth powder cans were ready for changing before the plates for the cartons for dentifrice were ready for refurbishing.

Mrs. MACINNIS: When you are making them in ounces, will you keep to ounces, instead of half ounces and three-quarters? This is the real complaint the consumers have. They go into a shop with little children and are trying to do their shopping and they just have not got time or the capacity to make this comparison. Will you understand the value of getting the thing marked in clear simple ways?

Mr. BEESON: I do hear you, but, as I said before, we are translating the grams back into ounces and they probably will come out in odd ounces. If I remember, one size is five ounces, another is 3.7 and another is 1.75 ounces.

Mrs. MACINNIS: As long as they are that way, you are going to have complaints from women.

Mr. BEESON: The reason they are that way is that the machinery, which costs thousands of dollars for printing and filling these tubes and cartons is high-speed machinery. I will look at it and talk to our engineers about it.

Mrs. MACINNIS: There will be a great deal of dissatisfaction until this is done in clear sizes. The other point is that some of those buying the products are confused. I wonder whether you could tell us the difference between ABC and Encore, to begin with, or ABC and Ajax. Is there a real difference?

Mr. BEESON: Yes, between those two products?

Mrs. MACINNIS: I do not mean size, I mean what is in them?

Mr. BEESON: Yes. Ajax has Ultramarine blue in it, which you use with white clothes or coloured clothes to make them brighter. ABC does not have Ultramarine blue, although the product is blue. Ajax has more brightening agents than Encore.

Mrs. MACINNIS: ABC has more brightening than Encore?

Mr. BEESON: No, Ajax.

Mrs. MACINNIS: On page 6, you say: "First of all, we have found Mrs. Consumer to be competent, able, and most aware of her needs in the market place." You also have said that your firm started in 1806. Presumably between 1806 and now you should have been able to build up a reputation for quality, and presumably your share of the market show that you have built up that name. What would happen if you were to take a simple package, without all these "come-ons" and gimmicks, and simply advertise quality at the lowest price consistent with cost.

Mr. BEESON: That is this product, ABC.

Mrs. MACINNIS: Why do you have a 30 cents off policy there, and 12 cents in the other case?

Mr. BEESON: This product ABC has no "cents off". It sells at this price (indicates).

Mrs. MACINNIS: I am talking about the whole range. You have admitted under questioning that there is no way in which you can enforce the cents off to the consumer. Therefore, when you are putting out that product you know perfectly well. While your intentions may be good, the road to the hot place is paved with good intentions. This is what the women think. Would it not be better to cut out this advertising of all "brightness" and "whiteness", and make the cheapest product consistent with cost? What would happen as far as sales go, if you did that?

Mr. BEESON: I tried it with Encore in the west and lost $60,000, and stopped the test.

Mrs. MACINNIS: You were doing that in competition with products in other regions. The women across Canada like to think they are able and competent and aware of their needs, but they are not treated that way by your company or other companies. They are treated like children. I am wondering what would happen if you were to forget about gimmicks and cents off and concentrated on making a quality product in the cheapest and easiest way.

Mr. BEESON: If the consumer wants the cheapest product in the cheapest way, we have it available for her. There are not many of those consumers, and that is the reason this product (Encore) has not taken on so well.

Mrs. MACINNIS: Then you too admit this is not correct, that women are not really competent people—

Some MEMBERS: Oh, no, no.

Mrs. MACINNIS: If they were, you would not really need to do all this. In other words, a lot of women are thinking the time has come when they should be treated like grownups.

Mr. SMITH: I think Mrs. MacInnis does not reflect the women's opinion as accurately as she would like to do.

Mrs. MACINNIS: I do not know all the consumer people but I know some of them.

On page 26, after the cost of "on-pack" premiums, you say: "The cost of these on-pack premiums is entirely borne by the company and gives added value to the consumer." These premiums, in the ultimate analysis, are paid for not by the company but by the consumer. Is that correct?

Mr. BEESON: No, madam, that is not correct.

Mrs. MACINNIS: Why not?

Mr. BEESON: The toilet soap product that was purchased this morning by Mr. Reid Scott is at the full straight stock price, with nothing added on to that. We bear the cost of that face towel and the added labour of putting it on.

Mrs. MACINNIS: There is only one place you can get the price, and that is from the consumer, ultimately?

Mr. BEESON: Ultimately, yes.

Mrs. MACINNIS: Then it is not accurate to say that the company bears the ultimate cost of the on-pack premiums? That is not correct?

Mr. BEESON: I think it is correct, yes. We did not add a cent to the price of the toilet soap.

Mrs. MACINNIS: Does not the consumer pay the added cost?

Mr. BEESON: No, I do not think she does.

Mrs. MACINNIS: Who does?

Mr. BEESON: Excuse me—

Mrs. MACINNIS: The only place the company can pass on the price to is to the consumer? Is that correct?

Mr. BEESON: Yes, but—may I finish this—by adding this on-pack premium from time to time we increase our sales, thereby lowering the cost of the unit to ourselves and to her.

Mrs. MACINNIS: But over the long period is it not true, is it not the point, that with all the advertising and research into new products results in putting new products on the market, does there not come a point where this thing does not bring added value to the consumer, because the cost is so much that the consumer cannot afford, that the consumers are not able to buy what they need?

Mr. BEESON: I really do not feel that it is. If that were the case, the promotion, or the plan or the presentation would not be successful and we would have to withdraw it, or we would never bring it out of the testing stage. As I explained, that is one of the reasons we do the testing, and we do a lot of price testing also.

Mrs. MACINNIS: I get many letters from old age pensioners and low-income consumers, saying they cannot afford the rising cost of various items, soap, cleansers—and they mention Ajax particularly in several letters. Is there no obligation on your part to follow this thing through and come to an agreement with the retailers so that these prices will not rise unnecessarily at the retail end?

Mr. BEESON: I am sure that any price increases we put into effect have been justified. By the same token, the mark-up that the chains or independent stores are taking is probably justified.

Mrs. MACINNIS: Would you be willing to come before a Government prices review board to justify your prices?

Mr. BEESON: I have it right here. Total sales went up 27 per cent since 1960 and raw materials went up 50 per cent.

Mrs. MACINNIS: Would you be willing to come before such a board before you raise prices on such a product, to justify why you raise them?

Mr. BEESON: I do not see really why we should have to do that, as private business.

Mrs. MACINNIS: Would you be willing to do so, to assure the consumer that such a price rise was necessary?

Mr. BEESON: I do not know, Mrs. MacInnis. I really would have to think about it. It would take some of the responsibility of running our company away from the executives.

Mrs. MACINNIS: I am trying to get the principle, as to how much you owe the consumer in letting the consumer know the full facts behind the cost of advertising promotion and all the other things. I would like to get at your willingness to come out in the full light of day before making these changes?

Mr. BEESON: It would take a lot of time and I think it would result in exactly the way we are running the business, which is to bring the best product we can at the lowest price consistent with a reasonable product, and we honestly and sincerely operate our company that way. I mean that sincerely.

Senator MCDONALD: As a supplementary, on the question of face cloths, added on, is it not true that if you did not put those face cloths on your special and give them to the housewives, as you contend, that you would have given the cost of those face cloths to some other form of advertising, newspaper, radio or television? In other words, the housewife got it, rather than than the advertising?

Mr. BEESON: Yes, sir.

Mr. SALTSMAN: Thank you, Mr. Chairman. Mr. Beeson, a number of questions have been asked today regarding the basis on which a consumer might judge the price of a product. As you indicated, besides price there are other

items involved in determining the value of a product. I think one of the questions we have to ask on this committee is how you judge the efficacy or value of the product itself. Referring to page 29 of your brief, I see that you were asked whether it is technically feasible to identify household detergents and similar products in terms of units of cleaning power. Your answer to that was no. You said that it is not technically possible to do that.

If it were technically possible, would you be interested in having your product so defined that the consumer could make a value comparison with other products?

Mr. BEESON: I certainly would, sir.

Mr. SALTSMAN: I imagine you are familiar with the fact that laundries do have methods of determining the cleaning power of detergents.

Mr. BEESON: You are talking about professional laundries.

Mr. SALTSMAN: Yes, professional laundries do have methods of determining those qualities.

Mr. BEESON: Do you know what they use primarily today? They use soaps in combinations with chemicals which are very hard to handle, and they handle them in great bulk quantities. Of course, we sell to all the laundries in Canada.

Mr. SALTSMAN: Besides that, do they not have ways of determining the value of the soap or other ingredients they put in their machines?

Mr. BEESON: Any particular laundry owner could probably judge for himself, but the situation in the Maritimes, where the water is soft, is a lot different from that in Toronto or Regina, and the manner in which housewives do their laundry differs considerably from commercial laundry methods. In the first place their equipment is completely different and they may add additives such as this Ajax Liquid Cleaner product (indicates) housewives frequently add this to their laundry to boost the cleaning power. Again, for example, my wife's laundry is much different from that of the wife of a factory worker or labourer. There is really a wide spectrum of different cleaning jobs to be done.

Mr. SALTSMAN: Acknowledging the fact that a laundry owner can make a test himself, are there not laboratories in Canada which analyse swatches and bundles of laundry in order to determine the value of a particular soap or product?

Mr. BEESON: We do that in our own laboratory.

Mr. SALTSMAN: In other words, you are able to make tests yourselves to determine the cleaning power of your products?

Mr. BEESON: Yes, on untreated cotton in certain artificial soil situations. We even go to underprivileged children's schools, give them T-shirts to wear, and then test our products on the T-shirts.

Mr. SALTSMAN: And yet you say that no test can be made to help the consumer determine the cleaning power of a product.

Mr. BEESON: There are tests that we can run under controlled conditions, but there is no universal term that we could use in the consumer's case that would apply across Canada to the varying kinds of washes which the ladies do every day. The washing machinery is entirely different. That makes a big difference in the cleaning job that one particular brand would do itself.

Mr. SALTSMAN: Could a standard not be set in the following terms for evaluation purposes that, under certain circumstances, brand A will remove more soil than brand B?

Mr. BEESON: I do not think so. According to our research and development people, no.

Mr. SALTSMAN: I would have to disagree with you, because I think such tests can be made.

Mr. BEESON: Tests can be done, yes, and we can do them.

Mr. SALTSMAN: Evaluations can be made.

Mr. BEESON: In our minds, it will not be meaningful to the consumers because of the wide divergence of different laundry products. For example, a white cotton shirt versus a wool blouse or sweater, points out the type of difference I mean. Khaki denim trousers worn on a hunting trip, and stained with grass, pose an entirely different problem to that of trousers soiled with grease.

Mr. SALTSMAN: Could you not tell the consumer how much soil could be removed under certain circumstances by the use of one soap as against another soap?

Mr. BEESON: You would have to identify certain types of soil, and there is a very long list.

Mr. SALTZMAN: In general terms, I mean, so that the consumer could make some comparison or have some type of criterion.

Mr. BEESON: I do not think so, sir.

Mr. SALTSMAN: On page 28 you talked about Rose Lotion Vel. You have reintroduced this product. You have indicated that this product has been improved. Could you tell me what you did to this product to improve it?

Mr. BEESON: It is now biodegradeable, which all of our detergents will be this year; the perfume is better; the stability of the suds is better; the bottle itself is improved for gripping and using in the sink, and we have added the convenience of the push-pull cap for dispensing the detergent into the wash water and then sealing it quickly so that it does not dry up and get dust or dirt down inside it.

Mr. SALTSMAN: How much better will this item now clean a garment than it did before?

Mr. BEESON: This is for dishwashing.

Mr. SALTZMAN: Well, by the testing that you have done in your own laboratories, how much more effective is this product than the previous product in terms of cleaning dishes?

Mr. BEESON: In terms of only cleaning ability, it is probably about the same.

Mr. SALTSMAN: In effect, what you have done is to add some perfume.

Mr. BEESON: Which is important.

Mr. SALTSMAN: And you have changed the container somewhat.

Mr. BEESON: According to the consumer tests which we ran, after we got the product completely put together as you now see it, tested against the previous product, this product won hands down in preference to the previous product because, sir, packaging plays a big part in the convenience of the every day jobs that the housewife has to perform. Perfume is very important on her hands, on her dishes and in her kitchen. And, of course, the way she evaluates the cleaning job is through the suds.

Mr. SALTSMAN: How do you evaluate the suds? How important are suds in terms of cleaning ability?

Mr. BEESON: They have absolutely nothing to do with cleaning ability, as you know.

Mr. SALTZMAN: Exactly. Do you tell wour consumers that, that the suds have absolutely nothing to do with the ability of the soap to clean?

Mr. BEESON: We have tried it and we have talked to consumers about it. Generally, in Canada, Mrs. Consumer is not ready to accept a cleaning product that does not foam.

Mr. SALTSMAN: Does she know that, if the product does not foam, it does not make any difference to the cleaning ability of that product? Have you spent any money on advertising in order to tell her that the foaming of the product has absolutely no bearing on its ability to clean?

Mr. BEESON: Right after the war, when synthetic detergents came in, there was a big job in education that the industry did in talking to the consumers about the fact that the suds or the amount of sudsing that the consumers would see would be less than they were for the soap based products, but that the product would clean as well or better than the soap based products did. But it took years and years to convince the consumers of that. Today, there is a trend toward lower foaming products primarily owing to the fact that the incidence of automatic washing machines in the home is increasing.

Mr. SALTSMAN: When you made your decision to move from soap to synthetic detergents, did you take into consideration that, aside from the initial purchase price that the consumer pays for products, the synthetic detergents would create social costs for consumers as well, in terms of pollution and in terms of problems that it would create in municipal sewage plants and for rivers generally? Did you take into consideration the social costs, when you changed from one product to the other? After all, there are two prices we pay as consumers. One is the price for the product and the other is the costly disadvantages that occur to our society generally, because of the use of certain products.

Mr. BEESON: I do not really know whether I am qualified to answer that question, because at the time of the changeover in 1946 I was not in the soap business. I do not know what they considered when the conversion was made. However, I do know that you would not have cleaning products today if it had not been for the synthetic detergents coming onto the market, because the world supply of tallow would not have met consumer demand in the total market requirements of cleaning products today versus 1946.

Mr. SALTSMAN: But would your answer be that this is not a normal consideration in the marketing of your products?

Mr. BEESON: Oh, yes. It would definitely be. Certainly. I have heard several speeches and read several papers on the pollution problem of detergents in lakes and streams and the blame is really not laid on detergents. The fault lies more with the run-off of phosphates and fertilizers. It is because they can see the foam of the detergents that people think it is detergents primarily that are polluting the streams. We have run tests, in fact, as an industry, and the Canada Chemical Manufacturers Association have done quite a lot of work in conjunction with the Government on this, and we have never been able to find that the detergent run-off has done any pollution or killed any living forms contained in the water. It is really, as I said before, the fertilizer run-off which is the main problem, with the phosphates they contain.

Mr. SALTSMAN: Are you saying that detergents have not created a problem in sewage plants?

Mr. BEESON: The foam is a problem to them, because they have to knock the foam down, as I understand it. However, pollution in the water has not been brought about by detergents to the same extent as it has by fertilizers.

Mr. SALTSMAN: You were talking about the number of products you have recently introduced and the fact that you have had to press very heavily on advertising. I refer to Vel. Thirty-one point seven per cent of the total cost of Vel is in advertising. For Ajax the percentage is 42.7. You mentioned earlier today that it takes you about a year to get off the ground. You lose money for one year and then you make it up the next year and then by the third year you are sort of home free.

Mr. BEESON: Hopefully.

Mr. SALTSMAN: All right. When you get to this third year and you are able to reduce these advertising costs substantially to bring them in line with your regular lines, do you reduce the price to the consumer at that point?

Mr. BEESON: This is when you are trying to get your money back you invested to get your product on the market and make her aware it is there.

Mr. SALTSMAN: You said the first year was one of heavy loss. The second year you made up this loss?

Mr. BEESON: Yes.

Mr. SALTZMAN: I a mtalking about the third year. I presume these products go on for a long time, six or seven years?

Mr. BEESON: Yes, some.

Mr. SALTSMAN: By the third year you are in a position substantially to reduce your costs?

Mr. BEESON: You are in a position in the third year to start making a profit on all the funds you invested behind that product, because our responsibility is to make a profit and bring new products to the consumer.

Mr. SALTSMAN: So you do not reduce the price after your second year when you have recovered your advertising costs?

Mr. BEESON: I would not say "No". This is a case (indicating Rose Lotion Vel) where we did reduce the cost. It happens from time to time. It would not necessarily follow one way or the other.

Senator CARTER: Mr. Beeson, of all the different products you make, which is the best selling product?

Mr. BEESON: Do you mean which produces more volume for the company than any other?

Senator CARTER: Yes.

Mr. BEESON: —because we are in different categories.

Senator CARTER: Which is the most popular, which has the largest sales volume?

Mr. BEESON: Fab. Across all our products, Fab has more popular volume than any other single product.

Senator CARTER: Are there any regional variations?

Mr. BEESON: Yes, sir.

Co-Chairman Senator CROLL: He asked, "Are there any regional variations?" Do you mean, yes, or in selling?

Mr. BEESON: In sales.

Senator CARTER: In volume?

Mr. BEESON: Yes.

Senator CARTER: It is more popular in some parts of Canada than others?

Mr. BEESON: Yes, definitely.

Senator CARTER: Which of your products is the most profitable? I do not mean which you get the largest per cent per ounce, but in your total revenue which contributes most?

Mr. BEESON: It would be Colgate Dental Cream

Co-Chairman Mr. BASFORD: At which price?!

Co-Chairman Senator CROLL: Catch him, if you can!

Senator CARTER: In Schedule 11, you have two liquid detergents. You have Rose Lotion Vel, and you have Encore.

Mr. BEESON: Yes, sir.

Senator CARTER: Are they essentially the same product? Are they for dishes?

Mr. BEESON: Yes.

Senator CARTER: They are both for dishes?

Mr. BEESON: They are both for dishes.

Senator CARTER: Your cost of raw material for Encore—which, I imagine, is the cheaper of the two, is that right?

Mr. BEESON: That is right.

Senator CARTER: But your raw materials cost more.

Mr. BEESON: I know. I asked the same question the other day. This is a per cent of sales, and the Encore liquid sells at a lower price than Vel, so the percentage is down.

Senator CARTER: You have this particular size container of Vel Lotion. How would that compare in the work it will do for the consumer with a package of soap powder? What would be the equivalent package?

Mr. BEESON: I really would not know, because Vel Lotion dissolves more quickly.

Senator CARTER: The housewife would be able to do so many washings of dishes with the liquid and she would get a certain number of washings if she used powdered detergent. Which would last her the longer?

Mr. BEESON: I do not really know. I do not think we have done it that way. We could do it that way. I imagine Vel would last longer, that liquid Vel would probably last her longer.

Senator CARTER: What about the value?

Mr. BEESON: The value involves different things. The liquid product, Rose Lotion Vel, is far more convenient to use than the powdered product; it is easier for her to handle; it is easily stored underneath the sink and is not affected by moisture; but the powdered product under the sink, which place is usually damp, might cake up on her.

Senator CARTER: If the housewife is counting her pennies she will probably put up with a little inconvenience, if she felt she could wash more dishes with the powder.

Mr. BEESON: I do not really know the answer to your question.

Senator CARTER: In your answer to Mr. Basford you made a statement I did not quite catch. I am not sure whether you were talking about soap products or toothpaste.

Co-Chairman Senator CROLL: Colgate toothpaste.

Senator CARTER: You said there were variations in the Maritimes. In other words, there were some differences in the Maritimes as compared with other parts of Canada. I did not quite catch what you said.

Mr. BEESON: I think we were talking about powdered detergents. The Maritimes has very soft water, as with British Columbia, and the relationship of hardness or softness of water in the Maritimes was what I was talking about.

Senator CARTER: So you prepared a special product, according to the type of water in different parts of Canada?

Mr. BEESON: We tried that and it created tremendous problems in manufacture, preparing different products for different areas, and it became unbearable. But the housewife in the Maritimes—and I think she knows this—uses less detergent to get the same cleaning efficiency as the housewife in Ottawa or Toronto, because of water hardness in the latter places.

Senator CARTER: On Schedule 6, in your advertising mix, roughly in percentage terms your "display and other" has remained pretty constant, around

0.7, from 1960 to 1963, and then when you get to 1964 it jumps up to almost double, 1.2. In 1965 it is 1.6. There is a tremendous difference in 1964-65 as compared with the previous years back to 1960. Is there any special reason for that?

Mr. BEESON: That is part of this new products program I told you about. New products frequently, when first sent out, come in these floor stands you have seen in supermarkets or drugstores, and that is a reflection of the introductory program to bring new products out on display in stores across the country.

Senator CARTER: Your "media"—newspapers and so on—is fairly constant; it goes up a little bit, but not too much. But your "coupons" and "samples" fluctuate quite a bit. You seem to have a different mix each year. Are you experimenting to find out which is the best mix?

Mr. BEESON: It just goes up and down like that depending what you are trying to do in that particular year and what category you are working on.

Senator CARTER: On page 17, paragraph 75, you say you have 10 full-time interviewers conducting interviews in Toronto, and a force across Canada doing the same thing. Are these included in your sales force, or do you charge it to promotion or advertising?

Mr. BEESON: These ten interviewers are in the market research category, and the hundred interviewers are part-time women who have a morning or afternoon on odd days of the week when they are free and they do this work for us. Their salaries and travelling expenses are charged to "Administrative and Other."

Senator CARTER: On page 18 you say you have up to 3,000 interviews across the country—that would apply to that too?

Mr. BEESON: Yes, those would be consumers, and these 100 women would be calling on 3,000 consumers.

Senator CARTER: How do you charge it up, to advertising?

Mr. BEESON: No, to "Administrative and Other."

Senator CARTER: Consumer research?

Mr. BEESON: Yes.

Senator INMAN: Mr. Chairman, I would like to ask Mr. Beeson this. Some laundry detergents turn white nylon garments a light pink. This is a kind of expense in itself. Can you give us an explanation about that? What is there in your detergent that does that?

Mr. BEESON: I cannot tell you. It would depend upon the product, and the garment itself—what type of synthetic fabric it was made of—and also the kind of additives used. I am sure our research people could tell you, but I cannot.

Senator INMAN: I have had it happen to me on several occasions. Then, I had some woman ask me why Fab, or some of these other detergents, could not be put up in small plastic bags, which would decrease the price. They find that the packaging is expensive, especially where there are large families of children, and there are washes being done every day. Is that possible?

Mr. BEESON: We have a product in a plastic bag. It is this one called Encore. It is packaged that way.

Senator INMAN: Perhaps they do not like that. A good many have mentioned Fab to me, but they find the packaging expensive.

Mr. BEESON: I would like to satisfy those consumers, but the bulk of the consumers are satisfied and want it in a carton because it is easier for them to use. You could not economically have several packaging sizes and methods for a single products. It would be too expensive from a manufacturing point of view.

Senator INMAN: I see. Now, I use a septic tank. I live in the country, and I have my own water system. I have had a new septic tank installed, and I have been advised not to use detergents in the laundry. What about that? What is there in the detergents tha cause trouble in the septic tank.

Mr. BEESON: I have lived with septic tanks all my life, and I will tell you that the biodegradeable products that we are now making are fine in septic tanks because they do break down in the process of the tank. Before biodegradeable products came into the picture the wash water from the laundry tubs was usually run into the field tile behind the septic tank. It did not run through the septic tank itself. In fact, there are laws in certain provinces and states of the United States which require the wash water to go into the field tile behind the septic tank, but they are no longer applicable because of the biodegradeable elements.

Senator INMAN: What did the harm?

Mr. BEESON: It was the phosphates and silicates that did not break down. The bacteria could not eat them. But, nowadays that is not true. The detergents you will be using from here on are safe in septic tanks.

Senator INMAN: I used the flush the wash water through the septic tank anyway, but I was just wondering what the result would be.

Mr. BEESON: You should not have to worry about it now.

Senator INMAN: No, not at my age.

Mr. SMITH: Is there any basis as to how the flat fee of $250,000 a year paid to your parent company is arrived at?

Mr. BEESON: It is not a flat fee. It just happens to have been around $250,000 in the last few years.

Mr. SMITH: How is it arrived at?

Mr. BEESON: At the end of the year the international staff at New York add up the total cost of these specialists that travel around, and then allocate that over the different subsidiaries based on their sales volume.

Mr. SMITH: Now, you mentioned a great deal of money has been spent in Canada on market research and that type of research by your company. But, in respect of the more elemental type of research such as that into the development of new products and better products, how much is spent in Canada?

Mr. BEESON: We do not spend a lot on basic research. Basic research is really technical, and it takes many years to ever get any product out of it. So, we have, for economic reasons, concentrated our basic research in four centres around the world—in New Brunswick, England, Germany and France.

Mr. SMITH: What is the first one again?

Mr. BEESON: New Brunswick, New Jersey. That is one centre of basic research. We do some research in Europe, but we do our product research here.

Mr. SMITH: In other words, a bright young Canadian research chemist, if he wanted to get into your company, would ultimately end up in New Brunswick, New Jersey, likely?

Mr. BEESON: No, not necessarily. We have a good, bright staff here, and they are doing very good work.

Mr. SMITH: But they do not do basic research?

Mr. BEESON: No, they do not do basic research. Over the long term, if he were really interested in basic research, he would probably go to one of the big research centres in the United States.

Mr. SMITH: Casually you have gone through this and have mentioned it, but would you just explain to me what "biodegradeable" means? It is a word you used in your rather confused paragraph 116.

Mr. BEESON: "Biodegradeable" refers to the fact that bacteria can digest and break down the raw materials that are flushed through the wash into the waste water. That is basically it.

Mr. SMITH: This is what the operators of municipal sewage plants have been worrying about over the last several years?

Mr. BEESON: Yes, sir. The detergent industry in conjunction with the petrochemical industry has spent millions of dollars over many years in developing the biodegradeable raw materials that are now being used.

Mr. SMITH: Will the detergents, when these become universal, have less foam?

Mr. BEESON: By the very nature of the products you use, they would have less foam if you put the same amount in. Our costs next year will go up by something like $100,000 because of the biodegradeable products and because of efforts made to maintain the foam. We have to put more in to get the same amount of foam. We have not been able to get the quality of material that we hoped to get in these raw materials, but when we do the detergents will go back to the A.1. level that we used to have. Presently we have to put more in than we did before.

Mr. SMITH: Thank you.

Mr. ANDRAS: Mr. Beeson, do you furnish your customers—the wholesalers who sell to the stores and other retailers—with suggested retail prices?

Mr. BEESON: From time to time we do, and those suggested prices that we publish are established from these sales reports that I have here. In other words, it is the prevailing price in the area. We do that for the small independent trade which does not have the sophisticated mark up system that the larger accounts have. We do it as a service generally for the small accounts. The big chains have their own mark up departments.

Mr. ANDRAS: In other words, the supermarkets take your delivery costs to them, and come up with the retail price?

Mr. BEESON: Yes, based on their expense of operating, overheads and what have you. They have competitive shoppers too.

Mr. ANDRAS: But the bulk of the retail pricing system would be established by the retailer himself rather than by you?

Mr. BEESON: Yes, sir.

Mr. ANDRAS: Does this reflect freight charges, and the variation in distribution costs across the country, or do you equalize freight, for instance?

Mr. BEESON: Our prices on powdered detergents are different in the far west and the far east from those here in Ontario and Quebec, and that is because of freight.

Mr. ANDRAS: How many price regions, for instance, would you have in Canada.

Mr. BEESON: Just those two. The far west and east are the same, and central Canada is the same.

Mr. ANDRAS: So there would be just the two variations in prices?

Mr. BEESON: Yes.

Mr. ANDRAS: Then, getting back to this confusion that seems to exist as to the validity of the retail price from which so many cents are taken off, I notice in your display there that on the ABC packages you do actually have the retail price printed right on the package. I see one is 99 cents, and I think I saw a smaller one at 69 cents or 39 cents. First of all, would that price vary as between those two regions?

Mr. BEESON: ABC is not sold in the far west.

Mr. ANDRAS: Setting aside the complication of the two regions which might result necessarily in two prices because of freight and so forth, why is it not possible for you to do what everybody seems to be asking for, and that is put your retail price on your products in a similar way to what you have done on the ABC packages? I do not see it, for instance—at least, it is not obvious from here—on the other products you have there.

Mr. BEESON: This is a suggested retail price, and if you—

Mr. ANDRAS: But it establishes some validity in the mind of the customer.

Mr. BEESON: If you go into the Maritimes you will find—this is where it is primarily sold—this product is sold in Ontario, Quebec and the Maritimes, but it has a larger sale in the Maritimes—that this is sold for 35 cents or even 25 cents, depending upon the feature that the supermarket is running at the time.

Mr. ANDRAS: I do not think anybody would argue with a retailer choosing to sell the product at less than the price you establish, but a price on the package would establish a point of departure for the customer in determining whether in fact he is getting value or not. I think it is a good thing. I am asking why it is not possible to apply the same principle of putting a suggested retail price on all packages in the same way as you have put it on the ABC packages. This would establish a point of departure, and some validity to the reduced price because the reduction can be calculated.

Mr. BEESON: From time to time we do have suggested prices on these others. I point out that on this carton of Colgate Dental Cream there is the price of $1.33, and then there is the supermarket's own price on the end, and it is a different price.

Mr. ANDRAS: Why not do this all the time?

Mr. BEESON: This appeals across the board spectrum of consumers. This product satisfies a certain group which is happy with it. Ajax appeals to a different kind of consumer.

Mr. ANDRAS: But you could have a different price on Ajax from that on ABC. I am not talking about the quality, or the results of using a product. I am simply trying to get to the point of establishing some point of departure for a customer who walks into a store and sees that an item is 20 cents off. He asks himself: "20 cents off what?" If you, as the manufacturer, put a suggested list price on the package, then it would have the effect of enabling consumers all across the country to be able to say to themselves that this item was 99 cents because the manufacturer says so, and they will know that the people in between have not monkeyed with the price.

Mr. BEESON: That really is not our role.

Mr. ANDRAS: Why do it in the case of ABC?

Mr. BEESON: This was an attempt to do something different that had not been done before.

Mr. ANDRAS: How did it work out?

Mr. BEESON: It does not sell very well in Ontario and Quebec.

Mr. ANDRAS: Do you think that is because of the approach of yours or because of some other reason?

Mr. BEESON: I really do not know. It depends on appeal to the consumer. Some consumers think it is fine. This is three pounds for 99 cents, and we advertise it that way. It is simple as ABC.

Mr. ANDRAS: Did you experiment on this?

Mr. BEESON: No, this has been out for three years.

Co-Chairman Senator CROLL: And Fab?

Mr. BEESON: Oh, yes, for a long time.

Co-Chairman Senator CROLL: And Ajax?

Mr. BEESON: Since 1964.

Co-Chairman Senator CROLL: We have had some research done on these products, perhaps not extensive; but in the year 1964 the price range of ABC remained at 39 cents, 69 cents and 99 cents, and did not vary. At the same time, on Ajax the price range was from 44 cents to 49 cents, and from 75 cents to 95 cents, from $1.34 to $1.75; and on Fab from 39 cents to 50 cents, and from 69 cents to 95 cents, and $1.19 to $1.59. That was the range of prices on these other articles as compared to ABC. As Mr. Andras points out, it was firm all the time.

Mr. ANDRAS: Mr. Chairman, if I may say so, I would not deny the right to Colgate or any other company to adjust their prices fairly and reasonably so that even if that 99 cents for ABC had to be raised in six months time or two years from now, that is not the point of my argument. My point is that you being a manufacturer, placing your stamp of approval on a particular price establishes the validity in the mind of the consumer; and the retailer I suggest would very much avoid ever selling above that price, but would be quite justified in selling below, and the retailer could say, "Yes, the manufacturer has put 99 cents on this package, but the supermarket charges 73 cents," and that would start a point of departure.

Mr. BEESON: This product creates problems for us because it is end-priced. We buy 300,000 to 500,000 cartons, whatever it is, depending on the size, for two or four months supply. You have restricted your flexibility if something happens competitively or it is decided to put some new ingredient in. We did an experiment in the United States in connection with toilet articles, and it was an awful mess and we finally had to get away from it, it was so confusing, because the prices would increase or decrease, and there were other cartons on the shelf. There were tremendous problems at the retail level and we discontinued it.

Mr. ANDRAS: I can understand the complications, but where you have 99 cents for the product on the shelf and for a good reason had to come out with a $1.04 price, why wouldn't you issue a kind of official price sticker which the retailer could go by and it seems to me that if you established on your packages a retail price then you would be removing a lot of doubt from the customer's mind.

Mr. BEESON: It is just that the market conditions are so different in different areas. The people like certain things more than others. It removes a lot of our flexibility in marketing if we are running specials or increasing the price or doing whatever we want to do, as well as it affects the retailer.

Mr. ANDRAS: One more question, which has already been covered by you, but I have an observation to make about it. Do you provide bulk quantities only in the one product Encore?

Mr. BEESON: Encore, yes.

Mr. ANDRAS: It is an unsophisticated packaging approach today, and there is no way of dispensing it except through a hole in the top and pouring it out?

Mr. BEESON: A hole in the top.

Mr. ANDRAS: You say the sales of that have been quite discouraging?

Mr. BEESON: It had a fairly good share across the prairies for a while, but that sales share is waning. It never did do well anywhere else again. In certain blocks of the population it does fairly well.

Mr. ANDRAS: You interpret this then as with other packaging, the convenience of being able to dispense a product from a different package, that it has some value to the customer, and they must indicate that or they would buy the bulk package?

Mr. BEESON: Yes, sir, they would.

Mr. Scott (*Danforth*): Do you still use the slogan, "Ajax the foaming cleanser"

Mr. Beeson: No.

Mr. Scott (*Danforth*): I have one question to ask you in the area of the response you gave to Mrs. MacInnis when she asked you if a prices review board was set up would you be prepared to appear before such a board prior to instituting price increases?

Mr. Beeson: I will answer you the same way that I felt I answered Mrs. MacInnis, that was that I think the end result would be the same.

Mr. Scott (*Danforth*): That is not what I am asking you. I am asking you, would you be prepared to appear regardless of the result?

Mr. Beeson: And I again answered Mrs. MacInnis that I would like to think about it and talk to some of my people about it.

Mr. Scott (*Danforth*): Do you not consider your position a bit strange in view of the fact that, for example, labour unions have to go through long, complicated government negotiations to get a wage increase?

Mr. Beeson: I did not understand.

Mr. Scott (*Danforth*): I am saying that your answer strikes me as strange.

Mr. Beeson: Labour unions you say—

Mr. Scott (*Danforth*): Labour unions in this country in order to get wage increases are compelled by law to go through long expensive conciliation proceedings, supervised at times by government, before they get wage increases. Why should you not have to appear and justify price increases before you put them in effect?

Mr. Beeson: I was not aware that labour unions had to go before conciliation boards to get wage increases. My understanding was that that was only after they could not reach a settlement.

Mr. Scott (*Danforth*): That is true, but in almost every case conciliation takes place as a matter of practice. Why should business be in any different position?

Mr. Beeson: It is entirely different, sir.

Senator Cook: If it is the law he would have to, but if it is not, why should he?

Mr. Scott (*Danforth*): I thought he might like to volunteer to appear.

Co-Chairman Mr. Basford: In paragraph 92 you speak of the danger of products being de-listed. If one of the chain stores is threatening you with de-listing a product, what do you do?

Mr. Beeson: There is not much we can do about it if the product is not selling very well. They don't usually just de-list a product. The next time the salesman goes it, a buyer just says they are not buying any more, it is being de-listed because of something that is history by then.

Co-Chairman Mr. Basford: With the new product how does your salesman get it on the shelves?

Mr. Beeson: Generally we have a presentation which is prepared ahead of time and shows the history of the test market. You explain some of the market research and consumer research you have done on it, the advertising, the couponing, sampling, if there is to be any, and the buyers go before a buying committee, usually, and they make a decision on what they are going to buy for that week.

Co-Chairman Mr. Basford: When you go before the buying committee of Steinbergs or Dominion stores is price a subject of negotiation?

Mr. Beeson: No, sir.

Co-Chairman Mr. BASFORD: What is a subject of negotiation?

Mr. BEESON: About the only thing I could think of that could vary on presentation would be the time of a commitment or a display feature tying in with our introductory advertising, and it would depend on how much lead time you had given that merchandising manager, that is all. Our plans are set by us, and the products are either bought or not bought.

Co-Chairman Mr. BASFORD: Do you pay for shelf space?

Mr. BEESON: No.

Co-Chairman Mr. BASFORD: For a new product?

Mr. BEESON: No, sir.

Co-Chairman Mr. BASFORD: On a new product do you make any special arrangements to return the product if it does not move?

Mr. BEESON: No, sir.

Co-Chairman Mr. BASFORD: Are you forced into participating in any of the games?

Mr. BEESON: Not any more, say, than our salesmen and his plans with that account; he may want to participate to the extent of his co-operative agreement.

Co-Chairman Mr. BASFORD: That is what you have all said when you come here, and it seems to me very strange. I have a group of people coming in to me, anonymously and secretly, who tell me that is not so, and that the chain stores are able to force the manufacturers into making all sorts of special deals. They come into my office almost as if they were dealing with the Mafia. They say "Don't tell anyone, our jobs are at stake". These are people from the chain stores, manufacturers, and advertising agents.

Mr. BEESON: We do not do it.

Co-Chairman Mr. BASFORD: I suggest something is going wrong somewhere.

Mr. BEESON: There is one instance I can tell you about. Our co-operative contract allows all accounts a certain percentage of their sales to be used on sales promotions. The cost of these promotions has gone up like everything else. Because our sales volume is at a certain level, it is only possible to buy fewer of these promotions. In many cases, chains have come to us and said "Sales are down, because you had fewer promotions this year". In many cases, they say "Let us give you a promotion next week, on Fab or Ajax, to get those sales back up". There is no game played as far as our co-operative contract is concerned.

Co-Chairman Mr. BASFORD: But they would charge you for that?

Mr. BEESON: No. It is an effort by the merchandising people to keep their sales going and keep customers moving through the stores.

Co-Chairman Mr. BASFORD: If they put a big advertisement in the paper, and a special for Fab, they charge you?

Mr. BEESON: If it goes beyond our co-operative contract, we do not pay for it. No, sir. And I am very firm on that.

Co-Chairman Mr. BASFORD: If Fab was not sold in the five chain stores in Canada, corporate chains, that would put a fairly substantial hole in your business?

Mr. BEESON: Yes, sir.

Co-Chairman Senator CROLL: It would be the business?

Mr. BEESON: The major chains—we do about—70 per cent of our detergent business would come through chain stores, including the co-ops—you have to include the IGA groups and the co-operative chains out west.

Co-Chairman Mr. BASFORD: Which shows a tremendous market power on the part of the co-operative chains. You live or die by them, as a manufacturer?

Mr. BEESON: Oh, yes.

Co-Chairman Mr. BASFORD: I would like at some point to get into the buying practices of the chains, as I do not think we have got there at all.

Mr. SCOTT (*Danforth*): They have to come back again.

Mr. JOYAL: Do you have a copy of your co-operative program?

Mr. BEESON: Yes.

Co-Chairman Mr. BASFORD: If someone went in and examined the books of Colgate-Palmolive and all of its sales orders, would they find that you had sold Fab, or all of your products, to all of the five co-operative chains, on exactly the same terms?

Mr. BEESON: Yes, sir.

Co-Chairman Mr. BASFORD: There are people who come to me secretly and say that is not the case. I do not mean with reference to your particular company.

Mr. BEESON: You could come and look at ours, because they are the same.

Co-Chairman Senator CROLL: Mr. Joyal asked for a copy of the contract on co-operative advertising. Have you a spare one handy?

Mr. BEESON: This is the basic contract which is in effect for the whole period. Form time to time, you have a special situation for a special product or a new product and we issue a special supplementary contract, which is available to everyone participating.

Mrs. MACINNIS: Has there ever been any attempt by your firm to negotiate with the big chains or with any of the retailers, as to the ultimate price at which the consumer shall buy the product?

Mr. BEESON: Not to my knowledge.

Mrs. MACINNIS: Is there any reason why that is not being done or should not be done? I am not talking about re-sale price maintenance at all, but about negotiations between two sets of people, the wholesalers and the retailers. I am just asking what would be the objection to that, from your point of view?

Mr. BEESON: I am not sure I understand. Are you talking about retail prices or about our prices to the wholesaler?

Mrs. MACINNIS: I am talking about you as manufacturers. Would there be any reason why you could not negotiate with the retailers, as to a certain price at which it would be desirable to sell at retail, and the two of you would agree on what the consumer would pay for the product. I am not talking about manufacturers dictating to the retailers. I am just asking would there be any reason why you and the retailers could not negotiate as to the price which should be paid?

Mr. BEESON: I do not think our people would be qualified to talk with the pricing people in the chains. We are not aware, or do not have at our disposal, the cost and the marketing conditions in that particular neighbourhood, or of all the things that go into selling at a retail price.

Mrs. MACINNIS: I understand that would not be true at the present time, but after all you did not know all about the details of unions before you started negotiating. What I am trying to get at is the principle, would that be a good thing or a bad thing, from your point of view, or is it a possible thing?

Mr. BEESON: I think it would be a bad thing from the consumer's point of view and would not really make very much difference from our own corporate point of view. We are satisfied that we get our retail price, and we run our consumer offers from time to time and do our advertising. I really think that the pricing you suggest is the responsibility of the man who has chosen to be in the retail business, as opposed to the manufacturer, which is ours.

Mrs. MACINNIS: Would it not prevent all this fluctuating—some things being a few cents up one day and another few cents another day, and so on. Would you

not be able to exercise some type of influence together with the retailer? From the consumer's point of view, do you not think that would have something to recommend it?

Mr. BEESON: I really do not, Mrs. MacInnis, because if I were Mr. Steinberg I would be after specials that would attract some of the Dominion Stores' customers, and vice versa; and if I were a retailer I would not want the manufacturer telling me the price at which to retail the products.

Co-Chairman Senator CROLL: I gathered from what you were saying in the brief, that you were not responsible for the increased cost of living in these various products, as indicated by the DBS Consumer Index?

Mr. BEESON: No. All I referred to were the index prices of our products over the reference period of the brief, which generally says that our prices have not increased since 1960. That is, on a cost per ounce basis, senator.

Co-Chairman Senator CROLL: Let me indicate to you that the DBS says that on detergent prices since 1964 have risen 7 points, from 119.6 to 126.7, as of September. What I want to know is, "Who done it?"

Mr. BEESON: We have only one thing—on powdered detergents in general, it has risen about 2 cents a carton. And, back in 1963—

Co-Chairman Senator CROLL: No, I started in 1964. Can you explain it?

Mr. BEESON: No, sir.

Co-Chairman Senator CROLL: You cannot. Then, I presume that if the DBS is right—and I assume they are right—we had better start looking at some of the other detergent people, had we not?

You do not like that? All right.

How long have you been president?

Mr. BEESON: I have been in the company 16 years.

Co-Chairman Senator CROLL: In the last 16 years, were you ever off the shelves in any of the supermarkets?

Mr. BEESON: On any one of our products? Yes.

Co-Chairman Senator CROLL: On any product?

Mr. BEESON: You mean, across the board, across our line, where we were wiped out? No.

Co-Chairman Senator CROLL: At any one time, were you completely off the board?

Mr. BEESON: No sir.

Co-Chairman Senator CROLL: So you have always been able to live with the supermarkets?

Mr. BEESON: Yes sir.

Co-Chairman Senator CROLL: That is what my co-chairman was trying to get at. Are you interested at all in price, what your product sells for?

Mr. BEESON: Yes.

Co-Chairman Senator CROLL: I have a letter here from a lady in Cold Lake, Alberta, who bought Encore, five pounds, and paid 97 cents, at Hudson's Bay, Vancouver; $1.43 in Brady's IGA in Grand Centre, Alberta—I do not know where that is—and $1.45 in another place in Cold Lake, Alberta.

I think she was just pricing. The Hudson's Bay price of 97 cents threw me—at 97 cents they were really giving it away?

Mr. BEESON: Hudson Bay Company in Vancouver have what are called "Bay-Days," which are big store-wide promotions, and this sounds like they were featuring Encore on a "Bay-Day."

Co-Chairman Senator CROLL: $1.43 and $1.49 are not out of line.

Mr. BEESON: Not for the west. This package was bought here, and was $1.39 locally. I do not think that would be out of line.

Co-Chairman Senator CROLL: Are there any other questions?

Mr. JOYAL: I do not know, witness, if it is clear that you are going to produce your balance sheets for the period 1960 to your last fiscal period.

Mr. BEESON: Yes. I have them with me, but I have just the one copy.

Mr. JOYAL: The other request I have is in Schedule 11, where you show a breakdown of costs of 10 items that you market. Would you give us the actual dollar figures for sales and, of course, the breakdown individually for the various items of cost that go into the production?

Mr. BEESON: That would be a long list. The various items that go into the production? You mean the raw material figures?

Mr. JOYAL: I mean in terms of dollar figures as against percentages.

Mr. BEESON: Certainly.

Co-Chairman Senator CROLL: There are still some questions, Mr. Beeson, that remain to be answered, and we urgently require the answers because we have to get a preliminary report out, but in concluding today's session, on behalf of the committee, I want to thank you and your staff profusely for coming here today and being most helpful to us. Thank you.

Ladies and gentlemen, this afternoon we have the Canadian Federation of Agriculture, which is a very important meeting.

The committee adjourned.

COLGATE-PALMOLIVE LIMITED

Appendix to the Brief for the Special Joint Committee of The Senate and House of Commons on Consumer Credit (Prices)

By: Richard C. Beeson, President

Ottawa November 29, 1966

SCHEDULE INDEX

1. Suggested Topics for Discussion
2. Market Shares
3. Comparative Financial Statements—1960-1965
4. Hourly Paid Labour Rates and Distribution Freight Charges
5. Selling Prices—Selected Products
6. Advertising Expense
7. Comparison of Media Rates
8. Containers and Other Packaging Material
9. Package Sizes in Terms of Net Weight
10. Selling Prices—Three Principal Products—Selected Weekly Periods 1965 and 1966
11. Cost Analysis of Ten Major Commodities

November 29, 1966

SCHEDULE 1

JOINT COMMITTEE ON CONSUMER PRICES

Suggested Topics for Discussion With
Soap and Cleaning Compound Manufacturers

1. Comparative financial statements for the period 1960-1965 inclusive showing gross sales, margins, cost of raw materials purchased, salaries and wages, operating and selling expenses and net profit.

2. Show separately annual advertising expenses incurred and their relationship to gross sales for the six-year period. Show detail separately for (a) direct and (b) co-operative advertising expenses.

3. Show the cost of containers and other packaging materials for the past six years and show their percentage relationship to gross sales.

4. How do you determine that your sales prices are competitive?

5. What is your sales policy respecting specialty items involving premiums, certificates redeemable by the consumer, cents-off deals, etc.?

6. Show quotations at f.o.b. plant sales prices per unit of some of the principal products offered during selected weekly periods in 1965 and 1966.

7. When volume sales orders are invoiced, is the billing net of all discounts or gross less discounts?

8. Does your firm pack for wholesalers' or retailers' private labels? If so, what volume percentage of some selected items were packed in this manner in comparable periods in 1965 and 1966? What are the differences between the private label brands and the nationally advertised brands?

9. Select ten major commodities (specifically including detergents) manufactured by your firm in 1966. In each case, detail the appropriate manufacturing and sales costs involved such as raw materials, direct wages, packaging, warehousing, advertising, sales expense, profit, etc.

10. Provide a list of all household cleaners, such as soaps and detergents, marketed in your company for the retail trade showing the trade names and the package sizes in terms of net weight.

11. Is it technically feasible to identify household detergents and similar products in terms of "units of cleaning power"?

October 28, 1966

SCHEDULE 2

COLGATE-PALMOLIVE MARKET SHARES

(This is our share of the national market in each product category expressed as a percentage of total market.)

	%
Heavy Duty Powdered Detergents	16
Light Duty Liquid Detergents	8
Household Cleaners	21
Abrasive Cleaners	36
Toilet Soaps	16
Room Deodorants	45
Food Wrap	10

Source—National Food Store
Sales Survey

November 29, 1966

COMPARATIVE FINANCIAL STATEMENTS

1960 – 1965
($000)

	1960		1961		1962		1963		1964		1965	
	$	%	$	%	$	%	$	%	$	%	$	%
Gross Sales	30,532	100.0	27,568	100.0	32,226	100.0	34,555	100.0	33,319	100.0	34,244	100.0
Sales and Excise Taxes	3,348	11.0	3,040	11.0	3,387	10.5	3,675	10.6	3,434	10.3	3,570	10.4
Cash Discounts	272	.9	262	1.0	283	.9	302	.9	300	.9	317	.9
Freight	1,515	5.0	1,437	5.2	1,615	5.0	1,756	5.1	1,785	5.4	1,770	5.2
Warehousing	596	2.0	518	1.9	570	1.8	597	1.7	644	1.9	709	2.1
Raw Materials	4,987	16.3	4,270	15.5	4,709	14.6	5,311	15.4	5,240	15.7	5,822	17.0
Purchased Finished Goods	1,812	5.9	1,432	5.2	2,104	6.5	2,306	6.7	3,066	9.2	2,472	7.2
Packaging Materials	4,344	14.2	3,815	13.8	4,584	14.2	4,526	13.1	3,386	10.3	3,335	9.7
Salaries and Wages	5,736	18.8	5,416	19.6	5,575	17.3	5,956	17.2	5,738	17.2	5.475	16.0
Factory Overhead	661	2.2	750	2.7	766*	2.4	964	2.8	882*	2.6	1,062	3.1
Margin	7,261	23.7	6,628	24.1	8,633	26.8	9,162	26.5	8,844	26.5	9,712	28.4
Selling Expense	793	2.6	754	2.8	856	2.7	852	2.4	831	2.5	769	2.3
Advertising	3,243	10.6	3,314	12.0	4,524	14.0	4,719	13.7	4,839	14.5	5,522	16.1
Administrative and Other	894	2.9	720	2.6	678	2.1	716	2.1	702	2.0	721	2.1
Taxes	1,318	4.3	1,173	4.3	1,592	4.9	1,700	4.9	1,520	4.6	1,622	4.8
Profit after Taxes	1,013	3.3	667	2.4	983	3.1	1,175	3.4	952	2.9	1,078	3.1

*1962 and 1964 factory overhead figures are best available estimates. Remaining years are actual.

SCHEDULE 4

HOURLY-PAID LABOUR RATES

	Male per hour	Female per hour	Over-all per hour
1960	$ 2.30	$ 1.77	$ 2.15
1961	2.38	1.85	2.22
1962	2.44	1.91	2.28
1963	2.50	1.96	2.34
1964	2.56	2.02	2.40
1965	2.64	2.08	2.47
1966	2.82	2.22	2.65

DISTRIBUTION FREIGHT CHARGES

1960-1966

1960	$ 1.37 cwt.*
1961	1.37
1962	1.37
1963	1.52
1964	1.52
1965	1.67
1966	2.00

* Ontario Freight Base No. 140 (Toronto to Kingston). The increases applicable to this freight base are representative of our Company's over-all distribution freight charges.

November 29, 1966

SCHEDULE 5

SELLING PRICES
SELECTED PRODUCTS—MOST POPULAR SIZE
EIGHTEEN MONTH PERIOD ENDED NOVEMBER 1, 1966

	Prices in effect (Ont. & Que.) May 1, 1965	Nov. 1, 1966
	Per Case	
Palmolive Soap—Regular Size (Packed 144)	17.72	17.72
Fab Detergent—Giant Size (Packed 12)	7.66	7.86
Ajax Detergent—Giant Size (Packed 12)	10.06	10.26
Ajax Cleanser—Large Size (Packed 48)	8.87	9.26
Encore Detergent—5 lb. bag (Packed 8)	8.60	8.92
Encore Liquid Detergent—48 oz. bottle (Packed 12)	8.54	8.54
Vel Lotion Detergent—Giant Size (Packed 12)	9.67	8.47

SELECTED PRODUCT CATEGORIES
PRICE PER OUNCE TO THE TRADE

1960 = 100

	1960	1966
Toilet Soap	100	127
Powdered Detergents	100	100
Scouring Cleansers	100	106
All Purpose Cleaners	100	102
Liquid Detergents	100	87

November 29, 1966

SCHEDULE 6

ANALYSIS OF ADVERTISING EXPENSE

$(000)

	1960		1961		1962		1963		1964		1965	
	$	%	$	%	$	%	$	%	$	%	$	%
GROSS SALES	30,532	100.0	27,568	100.0	32,226	100.0	34,555	100.0	33,319	100.0	34,244	100.0
ADVERTISING												
Direct—												
Media	2,267	7.4	2,461	8.9	3,301	10.2	3,413	9.9	3,142	9.4	3,369	9.8
Coupons	73	.2	43	.1	225	.7	274	.8	401	1.2	439	1.3
Samples	116	.4	128	.5	98	.3	51	.1	142	.4	327	1.0
Display and Other	213	.7	194	.7	234	.7	225	.7	377	1.2	545	1.6
Total Direct	2,669	8.7	2,826	10.2	3,858	11.9	3,963	11.5	4,062	12.2	4,680	13.7
Co-operative	574	1.9	488	1.8	666	2.1	756	2.2	777	2.3	842	2.4
Total Advertising	3,243	10.6	3,314	12.0	4,524	14.0	4,719	13.7	4,839	14.5	5,522	16.1

November 29, 1966

SCHEDULE 7

COMPARISON OF MEDIA RATES

1961-1966

1961 = 100

	1961	1966
Television		
C.B.C. Network (½hour prime time)	100	125
Spot (A.A. Time—70 Stations)	100	145
Radio		
All-station average	100	115
Print		
Newspapers (95 Dailies)	100	119
Weekend Magazine	100	135
Readers Digest	100	134
Chatelaine	100	118
Talent Re-use Payments	100	150
Commercial Production	100	125

Source: Rate Card Analyses, 1961-1966

November 29, 1966

SCHEDULE 8

CONTAINERS AND OTHER PACKAGING MATERIAL

	Cost Per	1960	1961	1962	1963	1964	1965	1966
		$	$	$	$	$	$	$
Soap Wrappers	1,000	3.05	3.05	3.02	3.05	3.24	3.29	3.14
Powder Detergent Cartons	1,000	40.23	43.70	43.70	40.40	41.17	41.44	43.86
Liquid Detergent Containers	1,000	75.70	71.86	70.21	60.24	57.68	51.80	50.50
Cleanser Cans	1,000	20.82	20.82	20.82	20.82	20.82	20.71	22.65
Toilet Soap Corrugated Container	1,000	77.25	77.25	77.25	79.60	79.60	79.60	86.30
Detergent Corrugated Container	1,000	181.65	181.65	181.65	187.05	187.05	187.05	202.30
Gravure Rolls (4 Colour) for Printing:								
Soap Wrappers	each	900.00	900.00	900.00	900.00	1,100.00	1,100.00	1,100.00
Cleanser Labels	each	900.00	900.00	900.00	900.00	1,100.00	1,100.00	1,100.00
Detergent Carton Printing Plates	set	2,925.00	2,925.00	2,925.00	3,345.00	3,345.00	3,800.00	3,800.00
Total Packaging on Gross Sales		14.2%	13.8%	14.2%	13.1%	10.3%	9.7%	9.0%

PACKAGE SIZES IN TERMS OF NET WEIGHT

Toilet Soap

Palmolive, Regular	96 grams
Palmolive, Bath	143 grams
Cashmere Bouquet, Regular	92.5 grams
Cashmere Bouquet, Bath	136.5 grams
Colgate Beauty, Regular	92.5 grams
Colgate Beauty, Bath	136.5 grams

Powdered Detergents

Fab, Large	1 lb. 4 oz.
Fab, Giant	2 lb. 10 oz.
Fab, King	5 lb.
Vel Powder, Large	1 lb.
Vel Powder, Giant	2 lb. 1 oz.
Ajax Detergent, Large	1 lb. 4 oz.
Ajax Detergent, Giant	2 lb. 10 oz.
Ajax Detergent, King	5 lb.
Encore Powder	3 lb.
Encore Powder	5 lb.
A.B.C., Large	1 lb.
A.B.C., Giant	2 lb.
A.B.C., Economy	3 lb.

Liquid Detergents

Rose Lotion Vel, Large	12 oz.
Rose Lotion Vel, Giant	24 oz.
Rose Lotion Vel, King	32 oz.
A.B.C. Lotion, Large	12 oz.
A.B.C. Lotion, Giant	24 oz.
A.B.C. Lotion, Economy	32 oz.
Fab Liquid, Large	12 oz.
Fab Liquid, Giant	24 oz.
Fab Liquid, Economy	32 oz.
Encore Liquid	48 oz.
Prize Lotion	20 oz.

Cleansers and Cleaners

Ajax Cleanser, Large	14 oz.
Ajax Cleanser, Giant	21.6 oz.
Ajax Floor and Wall, Large	1 lb. 3½ oz.
Ajax Floor and Wall, Giant	2 lb. 8 oz.
Ajax Liquid Cleaner, Large	16 oz.
Ajax Liquid Cleaner, Giant	32 oz.

November 29, 1966

SCHEDULE 10

SELLING PRICES (DELIVERED) PER UNIT—THREE PRINCIPAL PRODUCTS—SELECTED WEEKLY PERIODS 1965 AND 1966

	Ajax Detergent—Giant Size	Vel Lotion Detergent—Giant Size	Ajax Cleanser—Large Size
Last week of—			
April, 1965	83.8¢ each	73.6¢ each (7¢ off consumer price)	16.5¢ each (2¢ off consumer price)
July, 1965	65.8¢ " (18¢ off consumer price)	73.6¢ " (7¢ off consumer price)	16.5¢ " (2/39¢ consumer price)
Oct., 1965	83.8¢ "	73.6¢ " (7¢ of consumer price)	18.5¢ " (1¢ per can allowance on 2–9 cases or 1 free with 10)
Jan., 1966	68.8¢ " (15¢ off consumer price) 4 1/6¢ per package allowance on 2 to 9 cases or 1 free with 10	70.6¢ "	16.5¢ " (4¢ off 2—consumer price)
April, 1966	83.8¢ "	64.6¢ " (6¢ off consumer price)	18.5¢ "
July, 1966	68.8¢ " (15¢ off consumer price)	64.6¢ " (6¢ of consumer price)	18.5¢ " (1¢ per can allowance on 2–9 cases or 1 free with 10)
Oct., 1966	85.5¢ " 4 1/6¢ per package allowance on 3 to 9 cases or 1 free with 10	70.6¢ "	19.3¢ "

SCHEDULE 11

COST ANALYSIS OF TEN MAJOR COMMODITIES MANUFACTURED IN 1966

	Palmolive Soap	Fab Detergent	Ajax Detergent	Rose Lotion Vel Detergent	Encore Liquid Detergent	Ajax Cleanser	Ajax Floor and Wall Cleaner	Ajax Liquid Cleanser	Florient	Baggies
	%	%	%	%	%	%	%	%	%	%
Gross Sales	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Sales and Excise Taxes	9.3	9.3	9.3	9.3	9.3	9.3	9.3	—	—	—
Raw Material	25.2	29.6	28.3	13.9	16.8	10.8	18.0			
Packaging	5.8	9.1	8.1	11.5	16.8	16.5	9.6	40.0	49.5	56.8
Direct Wages	3.4	1.4	1.2	1.1	2.5	1.3	2.4			
Freight	3.7	7.8	7.2	5.7	15.4	9.5	5.9	5.8	2.3	1.3
Warehousing	1.1	2.7	2.3	2.0	3.2	3.7	2.4	3.7	3.6	1.2
Advertising	18.4	8.9	42.7	31.7	4.3	13.5	4.0	31.4	15.1	28.5
Selling Expense	5.4	5.4	5.4	5.4	5.4	5.4	5.4	5.4	5.4	5.4
Marketing	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6
Administrative and Other	21.5	14.9	13.4	11.8	17.0	14.1	18.6	6.7	6.8	7.0
Taxes	2.0	4.7	(11.6)	2.8	3.8	7.5	12.4	2.5	8.3	(1.6)
Net Profit	1.6	3.6	(8.9)	2.2	2.9	5.8	9.4	1.9	6.4	(1.2)

November 29, 1966

Upon resuming at 3 p.m.

Co-Chairman Senator CROLL: We have this afternoon a submission by the Canadian Federation of Agriculture. Mr. David Kirk, the Executive Secretary, is on my left, and Mr. Jean Louis Chabot, Associate Secretary of the U.C.C. is on his left.

Before we begin the hearing, I want to bring to the attention of the members of the committee that all the corporations giving evidence before the committee have been requested to provide some additional information. Letters were mailed specifying what was required and asking for compliance. The following have complied fully: A & P, Atlantic Wholesalers, Couvrette et Provost, Canadian Canners and Burns Foods Ltd. The following have complied partially: Western Grocers, Swift Canadian Co. Ltd. and Kellogg's. The following have not yet replied to our requests: Dominion Stores, Steinberg's, Loblaw's, Canada Safeway, M. Loeb Limited, Heinz, Gerber's and Canada Packers. We are urgently in need of further material in order to have an interim report for parliament before the Christmas adjournment, and time is running short. Wires will be sent today to all those who have not fully complied, requesting that the material reach us as quickly as possible.

Senator CARTER: Mr. Chairman, before the witness begins his brief, I would like to ask if consideration has been given to having fish processors or representatives of the fishing industry appear before this committee. Fish is an important article of diet for a great many people, and it will become even more so as the world food shortage increases and meat products get dearer. We have given a lot of attention to agricultural products, farm products, and we have had meat packers and processors of various kinds of dairy products appear. While I realize it is not perhaps possible to have these people appear before Christmas, I just wondered if consideration is being given to have them appear at a later date.

Co-Chairman Senator CROLL: Senator Carter, both Mr. Basford and I are very glad you raised this point. As you appreciate, it will not be possible for us to hear them before what we might term the Christmas adjournment, but certainly we shall see that they will be given an opportunity when the hearings resume for the purpose of presenting their case to the committee.

Senator CARTER: Thank you.

Mr. David Kirk, Executive Secretary, Canadian Federation of Agriculture: Mr. Chairman, I am very pleased to be here before the committee today, and the Canadian Federation of Agriculture, whom I represent, is very pleased to have this opportunity to appear. I should explain that the gentleman with me is an officer of the l'Union Catholique des Cultivateurs, the Catholic Farmers' Union, which is the principal organization among the members of the Federation in Quebec, and is a very large direct membership farmers' organizations.

It is not our intention today to repeat a large volume of statistical material which will already have been put before you by experts, nor it is particularly in our competence, certainly not in mine, to be an expert witness in the various technical aspects of consumer prices. Our submission will therefore not be a lengthy one.

It is our impression that the point has been made very often, and accepted by this committee, that the bulk of the increase in food prices over the years, say since 1949, can be attributed to increased marketing margins. The evidence is very clear on this point. Moreover, our impression is that on the whole consumers do not blame the farmers, as the saying goes, for the price increases that have occurred. We do not in general, therefore, feel that we have grounds for complaint on the score of unfair attitudes toward the farmer on the part of the consumer.

It is, however, quite clear that there is a widespread feeling of dissatisfaction and expression of protest among consumers at the rise in the level of consumer prices. Moreover, the focus in recent months has definitely been on food prices.

Farmers are, of course, concerned about this protest and dissatisfaction. Farmers also are consumers, and purchasers as well of many production goods at what amounts to retail level. So, in so far as unnecessarily high costs may exist in our distribution system, farmers have a definite stake in getting those costs down.

Moreover, if the concern about the level of food prices is exaggerated, or alternatively if corrective action is not taken to eliminate excessive distributive costs, then to that extent there is a danger that pressure to restrain or lower food prices may in some circumstances have unfavourable repercussions on farmer efforts to obtain a more adequate and stable price for his product.

There has been evidence before this committee that the farmers' share of the consumers' dollar has declined since 1949 from 58 per cent to about 41 per cent. At the same time the consumers' price index shows a rise in the food component of about 46 per cent to 48 per cent. I believe it is down a little now; perhaps 45 per cent anyway. The simple mathematics of these figures would seem to indicate that farm prices of the products that go into the food index have increased perhaps 5 per cent to 7 per cent, and the marketing margin—processing, transportation, distribution—has increased from 90 per cent to 100 per cent. These are rough figures, of course, but they clearly present the general picture. From statistical calculations like these you can get many variations, as I am sure you have found out in our hearings, but this is a general picture, which is clearly present.

It should be noted, incidentally, with respect to "built in maid services" as they are called, that adjustments are supposed to be made for this in the consumers' price index. When you have things like the cooking and aluminum plates and packaging that go into a TV dinner, for example, these extras are not supposed to raise the consumer price index by their cost. The index, in principle, is supposed to measure the increase in price of a constant basket of products.

This distinction between measuring changes in the cost of living and changes in consumer prices has, of course, been gone into by the committee and is understood. The point we wish to make in this connection is that many people, including many farmers, feel that there is a tendency to indentify as price increases what are really increases in goods and services, such as more processing and packaging or, as in meats, more trimming. If this were true the price of good would, to many consumers, seem to have gone up much more than it actually has.

At the same time, the share of the consumers' income spent on food has declined over the years, as is also well known to the committee. I so far as people are not on the whole eating any more actual food in pounds than they used to, then as real incomes rise it would be expected that the share of that income spent on food would decline. This is in fact what has happened with food expenditures declining from between 24 per cent and 25 per cent of personal income in 1949 to 22 per cent more recently. This has happened also in spite of a definite shift of consumption to more expensive food—away from breads and twoard meats, vegetables and fruits for example—and in spite also of the fact that many foods are now purchased in a more costly form, that is to say one to which more processing and packaging has been applied.

While we are altogether in favour of reducing excessive costs of food distribution where they exist, of improving the ability of the housewife to know exactly what she is buying and of protecting the consumer from misrepresentation and promotion that does more to confuse than to inform, we do not, frankly,

view the food price situation as a critical problem in the nation. As the balance of this submission will show, we do not by this mean to be unsympathetic. The farmer is a consumer too, and feels strongly, as all consumers do, about rising costs and prices. We will be recommending that the work this committee has started should be continued and extended. We do, however, feel that a fair perspective should be retained in this matter, and that perspective is this, that we are living in a period of increasing affluence, and in broad terms the generality of consumers are not presented by an increasing inability to properly feed themselves and their families. That there are underprivileged people in the country, with very real income problems, is true of course, but that is another matter on which we will touch later.

Having made these general observations, we have a few basic observations and recommendations to bring forward.

The Level of Prices to the Farmer:

1. The level of farm prices compared with other things has been determined, basically, by two factors, both tending to limit price increases. I am talking now about recent history, and not so very recent at that actually:

(a) The rate of increase in productivity in agricultural production, which, as has been pointed out by the Economic Council of Canada, has been higher than for industry generally.

(b) The fact that the ability of agriculture to produce has been rising in the post-war period faster than the commercial demand for its products, resulting in a persistent downward pressure on prices, and a lag in farm incomes as farmers have been forced off the farm through this sort of economic attrition.

Both farmers and consumers should legitimately share in the benefits of the first factor; that is, improved productivity. The benefits available from productivity improvement should continue in the years ahead. The Economic Council of Canada report points out that the extent to which productivity in agriculture increases will be the basic determinant of what consumers can expect in the years ahead to have to pay the farmer for the raw materials that go into their food purchases. This is really a specific application of the general truth that growth in productivity in all sectors will be the basic determinant of our standard of living.

As far as the second factor is concerned, namely the chronic income deficiency of the farmer, this cause of relatively low farm prices is one that must be eliminated. There are several considerations pointing hopefully to its elimination. The first is the steadily, though slowly, increasing improvement in marketing organization for farm products. The second is the fact that, more and more, it will simply not be possible to expect farmers to produce for sub-standard returns. One reason for this is that as their cash costs rise in relation to their total production, the extent to which they can tighten their belts and accept a lower income is strictly limited. With narrower per unit margins of profits, poor prices mean not only lower incomes but cash losses which cannot be borne. Unstable prices become increasingly intolerable. The second is that as the nation, and indeed the western world, grows more wealthy, and as employment opportunities increase, and the farm labour force continues to decline, we will increasingly move into a phase where it will be necessary to pay more adequate prices to attract into agriculture the labour, management and capital that will be required. It will be necessary to pay more adequately to bring forward production rather than to allow prices to be depressed to restrain production. Evidence of the attractiveness, relative to farming, of other occupations is the continued, and in fact accelerated, decline in the number of farmers in very recent times. From 1964 to 1966 the number of self-employed farmers in the labour force declined

by 60,000 farmers—a startling rate of decline of about 8 per cent or 9 per cent per year. That is in the last couple of years.

When we say that more adequate prices will have to be paid in the years ahead for primary products as they come from the farm, we mean that relative to other prices the prices paid to farmers will almost certainly have to be somewhat higher.

From a consumer point of view this may seem to be a somewhat pessimistic outlook, but we do not think it should be viewed that way. Continued improvement in productivity can be expected in agriculture and the consumer will reap the benefit of those increases. But to meet the growing Canadian and world demand for food over the next decade or more, the deficiency of income which the farmer has experienced for many years will have to be corrected or else the necessary labour, management and capital will simply not be attracted into food production, or held there, in competition with the other demands that our expanding economy is making upon our resources. This is true whether looked at on a Canadian, a continental or a world basis.

We would emphasize also that we are talking here about prices for farm products at the farm, not retail food prices. The impact upon food prices of generally improved price levels for farm products, and therefore upon standards of living, will not be excessive or burdensome in the years ahead in our opinion.

As far as farm levels of food prices are concerned, then, the consumers' best protection will continue to be, as it has been in the past, continued steady increase in efficiency and productivity in agricultural production. Farmers are not against this, although a good many have felt that as an answer to their income problem this increase in productivity has not only been over-emphasized, but has been a contributing cause of that problem. Nevertheless, the view of the federation is that what is needed, in everybody's interests, is steadily increasing farm productivity plus more effective means to ensure a fair and stable price to the farmer for what he produces.

Some of the means whereby productivity is improved are scientific research and development, education and extension, farm policies which encourage, and if necessary directly assist, improvements in farm capital, better training of farm labour management, and the setting up of the most economic family farm enterprises. Farmers support all such efforts, and believe they deserve the active support of the people of this country. The Canadian Federation of Agriculture has in the last two or three years held major national conferences on hog improvement and on beef improvement. It has played a leading part in pressing for the establishment of the Canadian Rural Development Council. It has undertaken extensive enquiry into the way agricultural research is carried on in this country, with a view to its improvement. It is becoming increasingly concerned that the problem of agricultural education, which is inadequate in Canada and has been for many years, should be much more aggressively tackled. None of these things give overnight improvement, but in the success of them all the consumer has an absolutely vital interest. We mention the above aspects of the work of the federation to show that it does take an interest in these questions of improvement in productivity and efficiency. In the success of such efforts the consumer, as well as the farmer, has a great stake.

The Marketing Margin:

2. All this, of course, deals only with the farm component of the cost of food. As to the marketing margin—processing, transport, wholesaling, retailing—although the farmer does get involved in these questions, and will continue to, the matter is primarily a concern and responsibility of the consumer rather than of the farmer. We do not have a settled view on whether the marketing margin is excessive or not, or if it is of exactly why. If it is excessive we are in favour of something being done about it.

In order to do something about marketing margins, the parts of the problem must be identified. First of all, there is the question of productivity, just as is the case in the farm sector. While we hold no brief for excessive profits, it is nevertheless unquestionably true that the big savings over the years ahead must lie in reducing costs of processing and marketing and not in eliminating profits. There is not that much in it over a long period of time.

It would be very unwise to assume that in transportation, in processing, wholesaling and distribution methods, and in the organization and practices of retailing close study and research into better and more efficient ways of doing the job would not pay dividends. We would recommend that this committee should give very close attention to recommending that machinery be established for intensively and continuously examining the state of productivity, costs and technology in the food distribution business. This should be done not only so that we will know what is going on, where the costs are, but so that new and better ways of doing the job may be uncovered and explored. If one is to assume that the processing and distribution industry will always, by itself, come up with the right answers, and come up with them as rapidly as is possible, and that the necessary research in the distribution field will always be done within the private sector, then such machinery is perhaps not needed, for these purposes anyway, but we suggest that this is almost certainly a wrong assumption. There is a public stake and a public responsibility in searching out and fostering the application of improved technology and better forms of industry organization.

What do we mean by "machinery"? We mean that a commisison or some form of adequate institution is needed to build upon the work that this committee is doing and to carry it forward. It would examine research needs to, do research of its own, and in this way to point the way to improvement. We are inclined to think that for this purpose the commission, or institute, form of organization, with a degree of independence to work and to publish, is the most appropriate form. The departmental structure is not best suited to the functions of continuous enquiry, research and accompanying publication of findings. We stress publication because the information and education aspects of such an endeavour are critical.

It may well be also that such an institution should embrace not only food but the general field of consumer goods and services. Many of the problems found will be related, and many will be experienced in common by several sectors of the distribution field. We do not think such an institution should assume regulatory functions in addition. Such regulatory functions are of a different order, and do not go well with the jobs of research, enquiry and information.

This brings us to the question of regulation. There are dangers in the heavy regulation of advertising, promotion, container sizes and such things; we recognize this. It would not do to obstruct progress through excessive regulation, therefore getting a rigid system that does not allow for innovation. We strongly feel that a major element in consumer irritation and frustration lives in the bombardment of advertising, "free" offers, promotions and gimmicks to which they are subjected. This is aggravated by a corresponding absence of solid information. Intensive efforts should be made to develop means of getting objective and detailed information to the consumer about the products he buys, and wherein value lies. The commercial advertising process is not well adapted to doing this, to say the very least. On the whole we think that combined with and supporting better information there is a place for more enforced standardization of package size, for better information requirements on labels, for more rigorous regulation against misleading or totally non-informative advertising, and for banning of trading stamps and other promotions. We do not underestimate the difficulty of these things, but we do think they should be enquired into

very closely in all their aspects. Here again, our proposed commission or institute has an important function, not itself to regulate, but to do research and enquiry into the possibilities, dangers, benefits and possible costs of such regulation. We recognize also that a good deal of the improvement needed relates to the non-food portion of the sales of food stores. In the food field itself a very cnsiderable degree of grading and consumer quality protection is, of course, already provided.

Food Pricing and Inflation:

3. The problem of inflation should be sharply distinguished from the problem of eliminating excessive costs, and of the encouragement of improved efficiency and productivity of the kind which we have been discussing. Inflationary pressures in the economy put an upward pressure on all prices, although at particular points of time these pressures may be heavier on particular sectors, or there may be additional factors—for example, a high or low point in the hog price cycle—which add to or reduce the price increase at that point of time. The inflation issue is a very large one, of course, on which the federation does not pretend to have extensive views. Like everyone else it is against inflationary increases in the general price level, and accepts the basic objective of economic policy to limit these increases without at the same time doing so at the cost of excessive unemployment or economic stagnation. The main point we want to make is that we do not see that the food price question has any special characteristics different from other sectors of the economy, so far as dealing with this problem of inflation is concerned, and do not see that in the context of the inflation problem any special action directed to the food sector is required.

Food as an Essential of Life:

4. Food is a very sensitive commodity—group of commodities is a better way to look at it—of course, in so far as consumer reaction to it is concerned. The process of daily purchases makes consumers very aware of price increases when they occur. The enjoyment of abundant food of high quality is considered practically a basic right, as well as a necessity, and the pressure of rising prices on incomes, when it occurs, tends to result in considerable and perhaps excessive attention to the food part of the budget. In this connection we want to make two points:

(a) As we have indicated, we do not think that food prices can be termed excessive in relation to the prices of other goods and services. Nevertheless, it must be granted that the very considerable size of the increase in the farm-retail margin is something that deserves the most intensive examination so that we may know exactly what is happening and look for ways of eliminating unnecessary costs.

(b) Food is a basic necessity in nutritional terms, and also in terms of the need for quality and attractiveness. In so far as there may be a problem of people not getting enough to eat of the proper kinds of food, as a result of inadequate incomes, we would emphatically state that this is a problem that should be corrected. But this is not a problem of high food prices. It is a problem of low incomes, and should be tackled by means designed to correct such purchasing power deficiencies as a matter of social policy.

The World Food Shortage:

5. There is, and rightly, an increasing awareness of the growing requirements for food in the world, and the grave dangers that these food requirements will not be met without extraordinary efforts to meet them. Already these pressures are showing up in sharply reduced world food stocks of grains, and the outlook is that both in the form of increased commercial demand, and in the

form of food aid requirements, there will be a rising demand for food that will, perhaps, finally ease the chronic surplus problems of the industry. For this reason also it would be unwise to anticipate that depressed farm prices in the future can be expected, as they have in the past, to cushion and obscure the rising costs of processing and distribution of food where these occur.

The Complexity of Price Behaviour:

6. It is well to remember, in connection with food prices, and in fact for consumer prices generally, that there is not a uniform price experience for all products. The variations are as numerous as the products, each reflecting particular conditions. For example, the price of wrapped bread shows a very large increase of 90.1 per cent compared with 1949, larger than for the vast bulk of other food items. Yet here is a case where the basic raw material, wheat, accounts only for 3 cents to 4 cents of the price, and between 1949 and the present there has not been enough change in prices of wheat to account for so much as 1 cent of change in the price of a loaf of bread.

There are other interesting things. In September of this year, the price of eggs at wholesale was only 90 per cent higher than it was about 30 years ago in the period of the great depression. On the other hand, the price of steers is at a level four times as high as in that period. This does not prove the price of steers is too high. It is not. What these figures, looked at cover such a long time period, clearly illustrate is the very important impact of different rates of productivity improvement in different commodities. The well known explosion in scientific advance in the poultry field is strikingly demonstrated by these figures. Also strikingly demonstrated is the point made earlier in this paper that the consumer's best protection is improvement of productivity over the years. This does not mean, of course, that the same improvement in productivity can be expected, or is even possible, in every commodity. Nor does it mean that new scientific possibilities can be applied with equal rapidity in every industry.

Conclusion:

By way of concluding remarks, we would like to re-emphasize our basic point, that the work of this committee, as an educational, fact-finding and policy-exploring endeavour, is very much to be welcomed, and we feel that a major need is to ensure that all the works that is being done by this committee shall be a starting point for a continuing program of research, investigation and education in the consumer, and particularly in the distribution, field, perhaps along the lines we have suggested, although we are not dogmatic about the exact institutional system that should be adopted. As a further suggestion, it would seem to be a very appropriate thing to have this committee of parliament on a continuing basis also, so that the commission or institute we are proposing could report to the committee and have these reports considered in a systematic way over the years. Much is said these days about the need to take account of the consumer interest in the workings of our economy. As in most other such things, progress can best be made if means are provided so that the effort to serve that interest can be sustained and made systematic.

Co-Chairman Mr. BASFORD: It is nice to know that someone loves us!

Mr. ALLMAND: Mr. Kirk, I am not an expert in farming, although there are many here who are, so I shall ask questions which may seem a little basic to you. In categorizing farms, do you distinguish the commercial farm from the family marginal farm that farms a bit, sells a bit, and maybe some who live there work in fixing roads and doing other things? Do you make this distinction in determining the profit margin of farms, or do you put them all in one big group and judge them all together?

Mr. KIRK: It depends upon the kind of work you are doing and for what purpose. When you talk about profit margins, if you are trying to assess the

incomes of farmers for a year's work or for a month's work on an aggregrate basis looking at the whole picture, then the kind of calculation we have made in the past has been to take the labour force survey figures—that is the monthly estimate of where people actually were working a week before—and use these, not the number of farms but the number of people self-employed in farming, and divide that by the net income, which is a sort of return to a year's work. That is one way of doing it, and when you do that you do get the sum of all the farmers, but you get a much smaller number to divide into, in number of work years, than the number of farmers in the census.

Mr. ALLMAND: I ask that because we know from the poverty studies in the Lower St. Lawrence, men who have owned farms, who work a bit in the forests some part of the year and fish a part of the time, make very low incomes, whereas you have big commercial farms, such as in Western Ontario and the west, and so forth, which might make very good profits, and if you lump them all together it it difficult to judge the exact position of the farmer. That is why I ask the question.

Mr. KIRK: I understand. On that point I think the thing I should say is this. Of course you do get wide variations in farm incomes in farming. You also get wide variations of ability in farming, and the income in farming is in part a return to management. If you are talking about assessing whether farm incomes are adequate, or not, if that is what you are getting at—

Mr. ALLMAND: I would like to know about commercial farms, farmers who farm as a full-time occupation and are not obliged to go into other things to stay alive. I would like to know the situation of those in commercial farming, full-time farming.

Mr. KIRK: Well, their situation is that their income has been improving somewhat over recent years, but it is not very good. The evidence is, in pork, in beef and in dairying—and I am sure this would be true in other fields—as we say in our brief, that prices are going to have to be better or the production will not be forthcoming. Increasingly this will be so, because farm incomes have not been and still are not all that good.

Mr. ALLMAND: When other food industries have come before us we have asked what is their dollar profit, how much percentage profit on a dollar of sales they make and what has been their return on capital investment. Do you have any figures like this for the commercial farming industry, what their return on a dollar of sales would be and what their return on capital investment would be?

Mr. KIRK: No, I don't, I am sorry. The work that has been done on farm incomes, per farm income, has been very inadequate in this country, and our organization has not had the resources to do the intensive work on that that we would like to have done, so I do not have those figures.

Mr. ALLMAND: It would also appear to me as a layman that the day will have to come when we shall have to move away from the family farm and farm on a commercial basis, as we do in everything else; in all other industries we have had to move away more or less from the family enterprise into the large corporate enterprise or large-scale operation, where even though the margin might be small the volume becomes so large that adequate profits are made.

It seems to me that now in farming—I may be wrong here—that we have too many small units, and therefore you have to increase the profit margin by quite an extent to give a farmer an adequate income compared to everybody else; whereas if we moved into larger productive units the volume would be sufficient, the economies of scale would apply, to be able to make an adequate income over the large area. Why is there a continual demand that we must support family farms? Why do not we willingly go into large-scale farms?

Mr. KIRK: I would say two things in answer to that. First of all, the differences in the incomes received by different farmers in different positions, which you are talking about, do not reflect the fact that farm prices are too high for the best of them, that there is exorbitant profit at one end and they have to be kept up there to give an income at the level of the less efficient farmers. What has been happening is that the less efficient farmers have not been making anything at all, and farm prices are not too high for the good farmers. That is the position.

Mr. ALLMAND: What I am suggesting is that maybe farmers would make the income they should make if they went into farming on a larger scale than they are now, as happened in other industries.

Mr. KIRK: The point is that there is a very rapid adjustment going on all the time in agriculture. What this brief does say very firmly is that we do support continued productivity improvement in agriculture, and that is what you are talking about.

Mr. SMITH: Do not you think that what Mr. Allmand is saying is reflected and perhaps answered by the fantastic scarcity of farm labour and the difficulty farmers have in employing labour on non-efficient farms at competitive prices with industry, and finding it?

Mr. KIRK: Sure it is. Farm wage rates have had a hard time being competitive, even for people who employ labour. They are not, as you say, competitive. Of course, on this family farm business and "farming as a way of life", the truth is that there is not very much evidence that the very large corporate form is a more efficient form, broadly speaking, than the family form of enterprise. "Family farm" is a very flexible definition. There is a whole wide range of farm organizational sizes and the number of employees. There are family farms that hire quite a few people, and quite a few at one time of year. I do not know what this "way of life" thing means. Being a farm lobbyist is a way of life, but it is not a subsistence existence either.

Mr. ALLMAND: I was asking my questions not only out of my own ignorance but, I must say, out of the ignorance of a lot of city people, and I just wanted you to explain it a little more.

Mr. KIRK: You see, our farm policy in this country has not been geared basically to retarding agricultural adjustment. That is the other aspect I want to point out, which perhaps is one of the questions you are asking—Are we seriously retarding agricultural adjustment?

Mr. ALLMAND: That is correct.

Mr. KIRK: I say we are not doing so; that has not been the impact of our farm policy.

Mrs. MACINNIS: Before we leave this subject I should like to ask what you mean, Mr. Kirk, when you talk about a family farm? Is it measured by bodies, or acres, or what? What is it?

Mr. KIRK: I am not talking about anything. I did not use the term in the first place, because we get into terrible arguments about it and it is very difficult. Everybody has his own definition of a family farm. My personal definition of a family farming enterprise is that I think it is really a sociological ideal more than anything else; it is a concept of equal people, independent workmen in a generally similar occupation living in a society of equals. That is the ideal it reflects, and when you have said that you have said most of the important things about family farming.

Mr. ALLMAND: Perhaps I might add this so that you know what I mean. I mean farms run by sole proprietorship, or a partnership as in other types of business, as opposed to the large corporate enterprise where the machinery and

capital used in the enterprise are bought and financed in the same way as machinery and capital in other enterprises.

Mr. KIRK: The only data I have seen on that—which I do not have with me—recently has been U.S. data, and the U.S. data indicates that over recent years, the last ten years, or something like that, the number of truly corporate enterprises that you are speaking of has declined as a proportion of the total number of enterprises, and even as a proportion of the total amount of production produced from those enterprises.

Co-Chairman Mr. BASFORD: Mr. Allmand's definition could include a half-million dollar wheat operation.

Co-Chairman Senator CROLL: Mrs. MacInnis, would you like to clear the air for a while?

Mrs. MACINNIS: I have a letter here that I would like to get an answer to. It is from a farming person who believes that the greatest cause of deserted farms is the manipulation of prices by the big buyers of farm products at harvest time, giving farmers low prices when the stuff is in plentiful supply. Is that a real cause of driving farmers off?

Mr. KIRK: No, I do not think it is as basic as you indicate. I think it is a real problem in many cases, you understand. I think the problem of instability of price is a problem, but I do not think it is a root cause of the persistent low incomes. I think the root cause has been that we are producing more than people would buy at a good price. I do not think the seasonal fluctuation question and the speculation element has been a root cause; I think it has been a problem, but not a root cause.

Mrs. MACINNIS: I gather from your brief that you believe food prices at the farm are not only not too high but they are not high enough, when they leave the farm. Now I want to question you about marketing margins. Do you believe, Mr. Kirk, that there is a great deal of waste in the marketing process, including advertising, gimmicks and so on, which puts the price between when the product leaves the farmer and we buy it in the store?

Mr. KIRK: Well, as I say, your committee knows much more at this stage about the actual extent of those margins.

Mrs. MACINNIS: But from the farmers' angle, do the farmers believe this?

Mr. KIRK: Yes, I think that farmers do, and I do too, I personally. I do not think that advertising expenditures are very productive, and I think there is a great deal of it, though what is the percentage of the total at the retail level, at the level of brand advertising, and so on all down the line, I do not know. Of course, we have organized groups who advertise themselves for specific reasons.

Mrs. MACINNIS: Would you think we would be productively employed on the committee in considering a suggestion put before us some little time ago, of either having a tax on advertising or else not allowing these big firms to deduct all the advertising as an expense when they are paying their taxes? Is that a good line of work to pursue?

Mr. KIRK: I do not know the answer to that, if there were a tax on advertising. I would be very unhappy if a tax on advertising back-fired and raised the cost of food rather than lowered it because the advertising was that much more expensive to put on. I do not know exactly what the effect would be.

Mrs. MACINNIS: What I am trying to get at is whether you could give us some advice on cutting out some of that fat or water, or whatever you like to call it, between the product leaving the farm and reaching the store. Some of us feel that the prices are too high in the store, and we know that the price of food has gone up twice as much as the price of any other basic item of living in the last eighteen months. I wondered if you had any solution as a farming group for

cutting out some of the tissue between when it leaves the farm and when we buy it in the store?

Mr. KIRK: The only solution that we have proposed, as we point out, is that you set up an institution on a continuing basis for going into these things and answering questions such as the tax on advertising that you raised. I do not know the answer. The essence of our proposition is that we should find out the answers, that there should be means to analyze such proposals adequately.

Co-Chairman Senator CROLL: What have you got in mind? What are you thinking of? I was very struck by your description, I thought of yourself, when you talked about a farm lobbyist. I think that was the term you used. What are you thinking about when you suggest that this committee continue on a permanent basis studying various problems, dealing with consumers I gather and what-not? What are you thinking?

Mr. KIRK: I think for one thing that because the question of price rises is a recurring question it should be under continuous review, data should be kept and all that sort of thing, so that you know from year to year and you get a report before this committee about it. That is one thing.

Co-Chairman Senator CROLL: Would not a consumers' department somewhere do that very job?

Mr. KIRK: A consumers' department? What we have suggested is that if you are talking about a field for enquiry and publication—and we think the education and publication aspect is essential to it—we think this is not essentially an administrative process or a regulatory process, and we question whether the departmental structure, which is the proper structure for many functions, is the proper structure for this one. We are inclined to think not.

Co-Chairman Senator CROLL: Then you put it on the basis of its educational value; it is "instant" government sort of thing; there it is and you deal with it immediately. Those two particularly?

Mr. KIRK: That is right.

Co-Chairman Senator CROLL: Is that how you put it?

Mr. KIRK: That is right, and we are suggesting there should be a way of reviewing these findings by a group of members of parliament.

Mrs. MACINNIS: On page 11 of your brief you deal with the question of food being a basic necessity in nutritional terms, and you say that this is not a problem of high food prices but is a problem of low incomes. Suppose we admit that food prices are not too high, for the sake of argument, for most of the people—although it is an admission I will not accept because there are too many people concerned. What would you do in the line of machinery to look after the nutritional needs of people for whom food prices are too high? What is your means of dealing with their nutritional needs?

Mr. KIRK: I am sorry, but I do not have an answer. What I have a mandate for is the broad principle of social policy that people should be fed. If you ask me for a specific policy mandate from my organization—and I try to speak for my organization—as to whether we are talking about a minimum income policy or a food stamp plan, or this or that, I do not have an organizational position on a particular means of meeting that.

Mrs. MACINNIS: As an individual, let us say, what methods could you tell us could be used? Let us not even ask you to commit yourself, what methods could be used to look after the nutritional needs of low income people?

Mr. KIRK: Well, I have just mentioned two of them. One is a food stamp plan, where you focus on food and say that because a family has a very large number of children plus a low income it is in a difficult position from the point of view of nutrition. Then you institute what amounts to a subsidy system through

food stamps or something for food purchasing. Now, this is a program that has been going on in the States for many years, and is expanding year by year. Another way is not to try to intervene in what people are spending their money for. Your can just say, "We will see that everybody gets enough to live on." But I do not have a view. I do not even personally have a view on this because it is a very complex field which needs study it is high policy.

Mrs. MacInnis: It is a field which will have to be dealt wtih, because if food prices are not too high for the generality of people, we are all getting evidence that they are too high for a great many people in low income groups, old-age pensioners and people with low incomes. If you do not want to go on with that, I would like to get your ideas in regard to standing up to these big retailing and wholesaling chain stores. What is your impression of the merit in Canada of co-operatives, consumer co-operatives, as a means of handling this?

Mr. Kirk: Well, of course, my position on that is that I work for co-operatives and I am very much in favour of co-operatives as a means of tackling this. I did not introduce, and my executive did not introduce when we reviewed this brief the other day, the co-operative question into this, because we think in a sense it is subsidiary to the main thing we wanted to say as a farm organization. But work on, for example, research on new distribution and transport methods, where the costs are, and continuing work on really getting a clear picture of the distribution and retailing systems, could be an enormous stimulus to the co-operative movement, because it would know it might find ways of innovating and making breakthroughts through co-operative stores.

You can look at co-operatives in two ways, and they have functions in both senses. One is to be a means of controlling the making of excessive profits. The other function of a co-operative may be that it makes innovations, valuable innovations in the way the food is distributed, in the system, that goes beyond the actual profit question. There is a co-operative in Ottawa, as you know, based upon a whole new principle, that is designed, not so much to set up the same kind of retailing and eliminate profits, but to set up a different kind of retailing.

Mrs. MacInnis: One last question. I get brought to me very frequently the question: Is it too late in Canada with the big chains already established, as they are in our big cities, to hope to establish co-operatives that can have any hope of succeeding or of being a material factor in the situation? People will say, "That was all right in Britain and in Scandinavia, because they got in there before the big chains and stopped them having the whole field". Is it too late to do that sort of thing in Canada?

Mr. Kirk: No, I do not think it is too alte. Or course, the co-operative movement keeps enpanding in western Canada. There is very little consumer co-operative development in eastern Canada, of this kind; there is some but not very much. I think the secret of success for a real breakthrough of the co-operative movement is to make real breakthroughs in how goods are retailed; not just doing the same job, not just competing on the same basis, with the same promotional techniques, the same everything.

Co-Chairman Senator Croll: What do you mean? How? We are all prisoners of the supermarkets. Now you tell us how we can break out of that. How do you retail except the way they do?

Mr. Kirk: The way this co-op in Ottawa is organized is that they price everything on the shelves at the wholesale price, at the price they pay for it, and the overhead is paid for on a fee basis, so much per person or per family per month. First of all the member knows what those goods cost the co-operative because they are priced at wholesale. Secondly, he has a direct interest in how many goods go on the shelves. That he can see, because the margin, the overhead, goes up it he starts spending too much money, if it starts costing him

$1.25 per person instead of $1.15. The concept behind it is that the consumer will pay very particular attention to what it costs to market his products, and know at the same time what the expensive ones are and what the cheaper ones are from the point of view of what his co-op pays for them, and he will get it all straight. In this way we shall make much more rational decisions about the amount of shelf space for soap, how many brands of soap and all that kind of thing.

Co-Chairman Senator CROLL: What has been the experience of those people who are part of it?

Mr. KIRK: The experience is that the co-op started on this concept, and is at the moment expanding, but it is not a huge movement yet, you understand; it is one co-op, but that is an example.

Mr. WHELAN: As a supplementary question to that, do not they volunteer their services in that store? They do not pay anybody; they all volunteer their services. Would not it be a similar thing if everybody was a pipe-fitter and—

Co-Chairman Senator CROLL: Wait a moment. Let us get the question. The question was, "Do they volunteer their services?" Never mind the pipe-fitters for the moment.

Mr. KIRK: They started out on a voluntary basis, on a basis of voluntary work done, but I think they are moving now, as every co-op movement must as it gets to a certain point in size, to paying somebody, paying a manager.

Senator MCDONALD: How long has this co-op been operating? A month, or years?

Mr. KIRK: About a year, a year and a half, two years.

Senator MCDONALD: Do you have any personal knowledge of the consumer co-operative movement in western Canada?

Mr. KIRK: Very little. I was a member of one for a number of years in Regina.

Senator MCDONALD: Would you not say they operate in exactly the same fashion as any other chain store?

Mr. KIRK: Well, no. You mean in terms of the way they run the business and put things on the shelves and so on?

Senator MCDONALD: I mean the way they deal with their customers, their pricing, from start to finish.

Co-Chairman Mr. BASFORD: Their merchandizing practice.

Senator MCDONALD: The only difference between the federated co-op in western Canada and Loblaws is that the federated co-op is bigger and does not pay any tax.

Mr. KIRK: Yes, that is right.

Senator MCDONALD: They send you a piece of paper once a year telling you they owe you so much money and you pay tax on it.

Mr. KIRK: I think generally speaking that is true. My answer to Mrs. MacInnis' question was that I think, the movement not having developed the way it has in western Canada in eastern Canada, you will not be able to make a big breakthrough with the co-op movement on the western Canadian pattern in eastern Canada without a new kind of innovation some place along the line.

Mrs. MACINNIS: Did you say in answer to the senator's question that the only difference between the co-op way of doing business and the supermarkets is one of size?

Mr. KIRK: No, I didn't say that. I didn't say anything. I think he asked the question but I didn't—

Mrs. MACINNIS: I am sorry. I thought you were agreeing with the senator.

Mr. KIRK: No, I do not agree at all. I do not agree that the co-op basis of business organization is in any respect the same as the private basis. I believe in the co-op basis. When he says that looking at it as a store, what it puts on the shelves, how it runs its pricing and that kind of thing as a store, that it is hard to find radically different means of operation and methods of operation from the chains, then I am inclined to agree, from my knowledge.

Senator MCDONALD: Would not you say there is not any difference, not just radically?

Mr. KIRK: No, I would not say that because I am not sufficiently acquainted. There may well be differences. One difference, of course, is the heavy promotion of the co-op brand, which is a house brand.

Mrs. MACINNIS: What is the main difference between a co-op and an ordinary store?

Mr. KIRK: The main difference is that the customers own the co-op, and any earnings that accrue to the operation of the store belong to the customer.

Mr. ANDRAS: Do I take it then that after getting over the first hurdle, where they have voluntary help, which obviously could not last very long, ultimately the price comparison between a large co-op of the same scale as a large supermarket would be just that difference in the final net profit?

Mr. KIRK: This will not always be true. It may be approximately true in some fields; it may not be quite so true in others. I think in the drug field, for example, here and there co-ops have made very considerable breakthroughs in lowering drug prices because they did not feel the same devotion to the principles of pricing that the drug retailers tend to feel.

Mr. ANDRAS: In the field of food co-operatives, we have had one example earlier today of a net profit margin after tax in the range of 3 per cent on sales volume. If the co-operative were operating in every other way on the same pattern, the same methods, as the supermarkets, with 3 per cent return on sales profit, would the only difference to the customer be the rebate of that profit, which is only 3 per cent difference in net cost of the article to the people who buy it, except the tax advantage which I know they have?

Mr. KIRK: That would be the difference.

Mr. ANDRAS: Are their methods of merchandizing that much different so that their costs as opposed to their profit are lower?

Mr. KIRK: I think that what the co-ops are aiming at, with I think probably varying success, is a simplification of the number of brands and so on. They do think in principle that a basic saving can be made if people would buy co-op, not only in terms of the co-op store, in terms of what is on the shelf, but if they buy the co-operative label. In evidence before this committee you have this semi-mystery of the difference between the price of the house brand and the price of the nationally advertised brand, and that has been one of the co-op principles. It has also been a co-op principle in general that they should be able to avoid the cost of advertising. Now co-ops do advertise, some of them have found they should and some of them do, but they do not advertise extensively. I do not remember if Sherwood had full-page ads; maybe they do now in the daily papers. Maybe they do now, but I do not know.

Mr. ANDRAS: Just as a matter of interest, Mr. Chairman—I regret that I have not been able to be on this committee as often as I would have liked—has there been any co-operative before this committee with a breakdown of cost similar to the one we saw today?

Co-Chairman Senator CROLL: Not yet.

Mr. ANDRAS: Would that be possible?

Co-Chairman Senator CROLL: Yes, they have written us and asked to appear, and we are trying to make some arrangements with people like the co-ops and the fish people.

Mr. ANDRAS: With a breakdown of operating costs, balance sheet and so on?

Co-Chairman Senator CROLL: If they are asking to come naturally they will disclose whatever others have disclosed.

Senator CARTER: Supplementary to the recent questions, is there any co-operative farming in Canada to any extent from the production end? I know you have co-operative marketing, but are there any co-operatives based on production in farming?

Mr. KIRK: Yes, there are a number of co-operative farms in Saskatchewan. I am not really up on the current situation there. Then, of course, there is a good deal of co-operative—some of it official co-operatives, some of it really just informal co-operatives—production activity in farm machinery and particular facets of farm business, but there are some full-scale co-operative farms.

Senator CARTER: Do you know if that is growing?

Mr. KIRK: Well, I do not think it is growing at a rate that is making any significant impact on the general picture.

Senator CARTER: Perhaps I have got the wrong term, but the one that sticks in my mind is "vertical integration". What I want to describe is the situation where the meat packer or the food processor owns the farm. From the consumer point of view do you think that is a good thing that should be extended?

Mr. KIRK: From the consumer point of view?

Senator CARTER: Yes.

Mr. KIRK: No, I do not see why this should be of any particular advantage to the consumer. I do not set why the cost cannot be just as effective with a properly organized production-distribution system in which the farmer owns his own farm.

Senator CARTER: Do you think that the prospect of higher prices for farm produce, which has been prophesied for the future, and which you yourself take for granted in your brief, will tend to perpetuate the marginal farms?

Mr. KIRK: No, I don't; no, I do not think it will tend to perpetuate them. First of all, the land will be worth working by good farms, and marginal farmers will still not be making the kind of earnings that they should be making, and they will either have to stop being marginal farmers or be better than marginal workers some place else. That is the whole principle of a good manpower policy, which should be applied to agriculture as well as any place else. I do not think that the farm productivity adjustment will be held up by improved prices. No, I do not think so.

Senator CARTER: You have repeated over, and over, and over again in your brief that the answer to the problem is productivity; you have had tremendous productivity on the farm which has benefited everybody, and then the farmer as a consumer has a stake in higher productivity in what you call the marketing operation, the processing, transportation and distribution. You do not give us examples of where you think these things can be improved. Have you any suggestion at all as to what could be done in, say, transportation or distribution?

Mr. KIRK: No, I do not. I know that conditions can occur where there is excessive cost in the system. For example, studies have been made in recent times in the milk distribution industry in Quebec. We had it reported to a meeting last week at the Agricultural Outlook Conference by an assistant deputy minister in Quebec that they had made a study of the dairy processing industry and had found just as wide a range of efficiencies in milk processing in their province as there were among the farmers producing the milk, that it was not

just uniform. It is a very complex thing. In overall planning studies done by the B.A.E.Q.—

Mr. CHABOT: Bureau d'Aménagement de l'est du Québec.

Mr. KIRK: The Quebec East planning institution looked at this dairy processing business and found it needed a lot of rationalization, that there were too many plants. That is a productivity question. Now, I do not know whether food is being efficiently and effectively handled, but I do know that it can be important to work at it. CNR did not hire one of the leading scientists of Canada to work for them for nothing; what they hired him for was to look at the fundamentals of the technology of railroading, to try to do something better than was done before. It does not follow automatically that if you are in business you always know what is the best thing to do unless you work at it and try to do it. That is the whole principle of industrial research.

Co-Chairman Senator CROLL: I have been saying that to "farmer" Whelan for a long time but he does not believe me, I cannot convince him.

Mr. KIRK: The essence of our brief is this. I am no expert in the transportation business, but I do firmly believe that it is important to look at these things, and it is important to get the research done. I suspect that the distribution industry and the transportation industry may not have adequate research programs, and somebody had better get them one.

Senator CARTER: When you draw the parallel of an increase of 5 per cent to 7 per cent in the food index on farm prices as against an increase of 90 per cent to 100 per cent in the marketing processes, you are implying that there must be room for improvement in this productivity, are not you?

Mr. KIRK: You see, we said that in the price index you are not measuring anything except the same product. You are not measuring changes in the product. But this is not true in the sense of a certain service component of the product. It is not true that you are not measuring parking lots, real estate, advertising services. It is true you are not measuring changes in the materials that go into packaging. You certainly are measuring changes in the costs that go into the supermarket set-up; you are measuring that, and I think the data shows that, for example, locational costs have been a significant factor in the increase in retail margins.

What about these locational costs? It has always seemed to me that one feature of the distribution system has been that it has a tendency to add costs in the form of service, in the competitive process, and these can be competitive factors in the process of adapting. You have got a better and more expensive store and people say, "Well, that's a nicer store. We will go there." Then everybody has to get one and you end up with a higher cost of stores. This is a characteristic of the distribution system that is not a characteristic of manufacturing *per se*.

Senator CARTER: Everybody who has appeared before us, all the chain store operators, tell us that is why they have done this and got bigger stores and better equipment, in order to improve productivity.

Mr. KIRK: Well, it may be true. I do not know. But I do think, as I think you think, that the margin has gone up quite remarkably, and I am not at all clear really why it should be so; I do not know.

Co-Chairman Senator CROLL: If I recall the evidence correctly, A & P, who placed emphasis on the product and the price, did it in stores that were less ostentatious and were selling cheaper and making more money. That is my recollection of the evidence before the committee, and I think we ought to consider that.

Senator CARTER: On the other hand, we have had manufacturers who have improved their warehousing so that they could handle their goods in better ways. That is all in the process that you refer to in your brief.

Mr. WHELAN: Is the real concern of farming organizations the problem of feeding the world? Is this a real concern of farming organizations?

Mr. KIRK: Do you mean do farm organizations really care about the world being fed? Is that what you mean? Or do you mean are we deeply interested? We are certainly deeply interested in it. We certainly are deeply interested in this problem. It has profound implications for farmers.

Mr. WHELAN: Do you feel we will have the ability to feed the world?

Mr. KIRK: I have never seen any evidence that it was not technically possible to do it. I think that the developed countries will not by themselves increase their production enough to feed the world adequately and continuously. The developing countries must increase their production. They must. Now, there are enormous problems and difficulties here. There have been reams and reams and reams of stuff written on it, and what I find out is that it needs a most massive and most intelligent effort to see that this food is produced. I am certainly, and our organization is certainly, in favour of this effort being made.

Mr. WHELAN: Do you feel that in our own country of Canada we are losing too many of our people that have ability to produce food, agricultural producers who are leaving the farms? I gather from your brief you maintain—and Dr. Deutsch I believe said the same thing—that production was the main thing that would offset the high cost of the products and offset inflation, that you had to have certain peak productions to maintain your output so that you did not have to worry too much about inflation.

Mr. KIRK: I am the last one to scrap with Dr. Deutsch. I think that regular increases in productivity help the problem of doing what is necessary to prevent inflation, but I do not think it necessarily by itself prevents. it. The inflation question is much more than that. On the question whether good people are leaving the farms: I think good people are leaving the farms, yes. Whether or not good people will be available to come back if there is anything in it, I am inclined to think they probably will, but I do not know.

Mr. WHELAN: This is my concern. To hear about "efficient farmers" and "inefficient farmers" or agricultural producers, whichever term you want to use, annoys me no end. I maintain that if we had a proper program any so-called inefficient farmer could be made an efficient farmer. Dr. Deutsch told us this, through the line of questioning the other day, that he felt this. Some of these people we are losing from agriculture go into the cities, and social workers and all these experts tell us they become a social problem and a burden on urban authorities and municipalities in many instances, that if we had a proper program of aiding these people, with scientific and technical assistance, they could become efficient producers. Do you not agree with this?

Mr. KIRK: Yes, I think so. I think that, when all is said and done, we have not done as good a job as we should have done at what you could call the extension process in its broadest sense, that we have not done as good a job as we should have in the whole educational sphere, in the amount of agricultural education. I do not think we know any more exactly what it should be. Certainly compared to the size of this industry there is so little of it. I agree with you. I think we should bear down and see that the resources are put in to see that farming is done well, and that people are helped to do it well, and much more effectively than we have done. I agree with you.

Mr. WHELAN: You feel then that the governments, say, in Canada overall have been backward as far as aid to these types of people in education and other

scientific and technical aid alongside the agricultural program that farmers have enjoyed in the United States?

Mr. KIRK: Yes, I think on the whole that is true.

Mr. WHELAN: Now to get on to the co-operatives. I at one time spent quite a bit of time associated with co-operatives, and one of the things that we went out of business more of, that I can remember, was the grocery store business. This is strictly in Ontario, of course. I was a director of the United Co-operative, and many times our economists—and as directors we were dependent on the experience of these highly informed and capable people—advised us to get out of this business because it was too competitive. I can remember the co-operative store in the labour city of Windsor going broke because the labour people would not deal with it. Should we get across to people the impression that co-operatives are the answer at all?

Mr. KIRK: As I said, I think it has got to be backed up with a demonstration of the kind of co-operatives planned, of where the savings lie—with some precision.

Mr. WHELAN: It actually scares me when I see them recommended to go into these co-operatives with the little knowledge that they have of the business world and see them fail. I can remember we took over about three co-operative failures and tried to save them, and if United Co-operative had not been such a big organization it could have got into difficulties itself; one was a housing co-operative, and I could name several others.

One of the things that I want to ask you about is government aid to assist people. In our area, which is a very productive vegetable area, many times the prices fluctuate, they go up and down all the time. Over the weekend I have a meeting with people, and one of the problems I was confronted with was proper storage. Has your organization recommended that the government reinstitute grants for storage. They have frozen the potato storage. There is no storage available for onions, and at one time this used to be possible. These people feel this would stabilize the price of their product to the consumer and make a more equitable income for themselves rather than the real gamble they have taken on.

Mr. KIRK: I think that if there are gains to be made for everybody—and that is the implication your statement has—if you can stabilize the situation and do a better job of marketing, if you will get a better product and get it more regularly and on the whole at as good or better price, and the farmer will be better off—if that situation is being held up by lack of storage facilities, then I think the government should take action, as it has in many other fields for many other reasons.

Mr. WHELAN: We talk about the cost of living, but the cost of storage for these people has gone up 150 per cent in one year, where they rented storage before. With regard to corporate farms and state farms, I know it is hard to define a family farm—the main reason I feel there are not more corporate farms is because the man who has that much money to invest would be foolish to invest in that, because he can invest it in private lending and get at least 8 per cent on his money, and he will not get that on a corporate farm—is the corporate farm similar to what we call a state farm in the socialist countries, where everybody is hired to do the work and the incentive is taken away from them?

Co-Chairman Mr. BASFORD: Communists I think they are called.

Mr. KIRK: It certainly does not coincide with what farmers consider the socially desirable form of farming organization. You say a corporation is the same as a state industry. I expect there are a good many shareholders in this country who would disagree with that.

Mr. WHELAN: I think the results are the same as far as production is concerned from the studies I have made of it. Actually we have seen highly productive areas in agriculture become less productive when this type of opera-

tion takes over. I just wanted to ask one other question on advertising. I did not get just what you meant by advertising farm products, whether farm organizations should get involved in this or not.

Mr. KIRK: Well, the farm organizations are not very extensively involved, but they are in some cases. The dairy farmers are a good example, and the incentive that got them into that fundamentally was an acute competitive situation with substitute products; that was one of the main incentives. It was threatening to be very disastrous for the industry, and was.

Mr. WHELAN: I am aware of an advertising program that the producers in our area used; it was so successful that they imported milk, but it was not successful enough to give a proper return to the producers and a big percentage had to go out of business, but the people in that area consume most milk per capita of any place in Ontario.

Mr. KIRK: The dilemma in the advertising question is always that the advertizer, especially the initial advertizer, tends to gain some yards, or that is what he thinks because he does it. Then you get a diminution of effect, as everybody competes you get a built-in cost, a sort of 'no net change' finally. This question has been raised in farm circles, as to whether or not looked at broadly farmers might not over the years be in danger of simply spending a lot of money competing against themselves. That has been raised; not resolved but raised.

Mr. WHELAN: Are you aware that Dr. Deutsch says the Canadian people are not paying too much for their food?

Mr. KIRK: That is what we say in our brief, yes.

Co-Chairman Mr. BASFORD: I would like your comments on a few things, Mr. Kirk, and then I have a couple of questions. We have had some evidence in front of the committee from manufacturers and processors that they lease farms or own the farms. Is that desirable development or not in your view?

Mr. KIRK: No, I do not think it is a desirable development. I think that there are some forms of production particularly—maybe more and more all the time—where there must be a rather close integration, if you like, between the production and the processing in terms of the timing of the deliveries, quality, uniformity and so on, and there may be particular processing groups that have found they had an interest in giving themselves some protection by owning their own land. But I do not think, as I said earlier, that this is necessary, nor do I think it is desirable.

Co-Chairman Mr. BASFORD: You would prefer to see the producer and processor kept separate and apart?

Mr. KIRK: I would prefer to see the producers organized in a way that they could cope with the requirements; not only bargain effectively but cope with the production requirements of the trade.

Co-Chairman Mr. BASFORD: Then I presume your comment would be the same on this. You have a name for the type of agreement where the crop is bought before it is grown. This is done with vegetables often, I understand.

Mr. KIRK: Yes. There is nothing wrong with contracts. In fact, with many crops now a producer—I think Mr. Whelan would agree—is not going to produce unless he has got a contract; he just cannot afford the risk; he has got to have a contract, and he will not produce without it. So there is nothing wrong with contracts, provided they are good contracts and fair ones, and that is what organized producers should ensure, and some do.

Co-Chairman Mr. BASFORD: We had some evidence—I was looking for the exact quote but I did not find it—from the department of agriculture that they concern themselves solely with producer prices and were not that concerned about studying or following retail prices, which rather astounded me, because I

thought that retail prices would have an effect on the market for the producers. It seemed to me that the department of agriculture should pay far more attention to consumer prices or retail prices. I wonder if you would care to comment.

Mr. KIRK: I think it is true, first of all, that they have not paid much attention; they have done some work on marketing margins, which involves looking at retail prices in a sense, but they have not been primarily concerned in this field. I think that is true. You see, the business of processing and distribution is not the business of farming. Moreover, processing, distribution, marketing and transportation, this whole complex, are all interrelated. It is not just food; it is food, soap and hardware, and goodness knows what. Our suggestion here is, first of all that there is a place for looking at this distribution area as a particular field, and secondly that apart from its regulatory aspects—we have made no suggestion about how we should regulate, and I am not too concerned about that—that the informative, research and educational aspects of that should be done outside the departmental structure altogether.

Co-Chairman Mr. BASFORD: We had a man in front of us the other day from Sweden who said that one of the techniques for increasing productivity in Sweden—and you seem to be concerned about productivity in your brief—was to allow the freest possible importation into Sweden of products, which forced specialization and forced greater productivity in the Swedish economy. I am wondering what the Canadian Federation of Agriculture would say to allowing the freer importation of agricultural products in order to force specialization and increase productivity in Canada.

Mr. KIRK: I do not think it would contribute much to that. The point is that, broadly speaking, agriculture in Canada is not a high-cost agriculture compared to the rest of the world, not even in dairying. World prices in dairying, however, have been determined by almost a residual producer; there is a low-cost producer, and that is New Zealand as much as anyone. But if you look at the whole area of dairy prices, in the Atlantic area for example, you are not going to find that Canadian prices are particularly high. I do not really feel, and certainly my membership do not feel, that we should in that particular case subject ourselves to the price depressing impact of what in world terms is a residual dairy supply.

In other industries we are on a continental market, essentially for animal products and poultry products; our tariffs are not excessive and not a real, great big factor in the thing. In terms of its impact on food prices, I do not think it is all that big an issue, or should be, although the whole question of agricultural trade policy, of course, is a big issue, and a very, very complicated one.

Co-Chairman Mr. BASFORD: I am wondering why, if the farm groups as consumers have obtained free trade in farm machinery, the Canadian public is not entitled as consumers to free trade in agricultural products.

Mr. KIRK: Well, of course, the reason why you do not have a picture of free trade in agricultural products, speaking more broadly now, in the western world is simply that under the conditions of agricultural production it has been an economically intolerable situation for the farmer, to have a free trade situation and a de-stabilizing influence on the international economy, as far as that is concerned, in some major products.

If you ask: Why should not they have free trade? Well, that is the reason, because there are reasons for having some protection on agricultural prices. There are good reasons, and they are not, I agree, necessarily consumer reasons in the sense you are speaking of. But again, on the whole Canada does not run a highly protective agriculture, with great high prices as a result of protection; that is not the picture. That is not the picture at all, so the benefits—if you want to call them benefits—from the introduction of free trade in agricultural products would be, in my opinion, small, and the uncertainties and instabilities that

the flat introduction of that would cause for farmers would be bad for farmers, and in the final analysis bad for the country, and very disruptive.

Co-Chairman Mr. BASFORD: You argued earlier that we should be specialized and increase productivity. In some areas we are growing things which we have no business to grow, but we are growing them because they are protected by tariff.

Mr. KIRK: As I say, that is a trade, farm and economic policy question. I say that the significance of it at the level of consumer cost is very small. That is my main point.

Mr. WHELAN: Could I interject? What things are we growing in Canada that we have no business to be growing?

Co-Chairman Mr. BASFORD: I would like to go into that later.

Mr. WHELAN: But I doubt that statement very much.

Co-Chairman Mr. BASFORD: Let me go on. It has come out in evidence that we have a tariff on bananas. Why would that be there?

Mr. KIRK: I do not know.

Co-Chairman Senator CROLL: Well, Mr. Whelan comes from the banana belt.

Mr. WHELAN: I told him that the other day: because they produce apples in British Columbia and they want people to eat apples and not bananas.

Co-Chairman Mr. BASFORD: Is that the sort of tariff the Canadian Federation of Agriculture would support, or would you support doing away with the tariff on bananas?

Mr. KIRK: We have never discussed the question of the tariff on bananas. I do not know what the impact would be, whether it would hurt the farmers or not. I do not know. It might not very much; I do not know.

Co-Chairman Mr. BASFORD: We could reduce the price of bananas by 0.5¢ per lb. by knocking the tariff off.

Mr. KIRK: By 0.5¢ per lb.?

Co-Chairman Mr. BASFORD: Yes. We have had evidence before the committee that there are certain tariffs applied on a seasonal basis to protect the Canadian grower against the American crops which come in two or three weeks earlier; there is a tariff put on for a short time to protect that Canadian crop so that it can get the advantage of the seasonal prices in Canada. The suggestion has been made by some witnesses that those seasonal tariffs are carried on much longer than they are needed.

Mr. KIRK: Well, I just do not know enough about this. This is a very detailed procedure. Every year the Horticultural Council handles this, and I just do not know enough about it to discuss whether some of these are on too long or whether some are not. It would be very foolish of me to comment when I am not informed enough to do so.

Co-Chairman Mr. BASFORD: I have one more question. You say in your brief at page 6—and I am not denying the farmers a good livelihood—:

> The impact upon food prices of generally improved price levels for farm products, and therefore upon standards of living, will not be excessive or burdensome in our opinion.

We had some tables the other day from the Dominion Bureau of Statistics, which in my view showed a very close relationship. I will give them to you in a minute The tables showed the wholesale price indexes of Canadian farm products at terminal markets for hogs, and also the industry selling price indexes for fresh pork, bacon and sides and cured hams; then a third table showing the consumer price index for fresh pork, cured pork and bacon; all on an index basis with 1961 being 100. As the official from the Dominion Bureau of Statistics showed us, if

you hold these up to the light, one chart on top of the other, you see a very close relationship between the index figure of farm product prices at terminal markets—that is what the producer is getting—and what is happening both at the wholesale level and at the consumer price index level.

Mr. KIRK: Well, sure. The point is that anybody who tried to argue that the price of hogs could go up from $28 to $34, say—that is $6 to take an example—and it would not affect the consumer price would be arguing very foolishly. Of course it affects the consumer price; it increases it for pork; there is no question about that at all. If it goes up $6 per 100 lbs dressed carcass, and then the amount you sell at retail is something considerably less than 100 lbs—I do not know exactly how much it is; let us say it is 60 lbs.; it may be lower than that—obviously a $6 rise involves something like 8 cents or 9 cents per lb. on the price.

It is true that over the years fluctuations in food prices from month to month, sometimes from year to year, have reflected changes in farm prices. But what has happened is that they have gone down again; they have gone up and gone down, and the margin has increased as you went along. In other words, the retail level did not fall back every time to where it was before.

It is not arguable that in some products especially you have relatively low marketing margins, which is true with meats and butter, as compared with, say, canned peas, where it is small and makes no difference to the price. Even with canned peas, if the price of peas goes up to the farmer it will make a difference in the price of canned peas. 41 per cent overall of the index is the farm price, and if it goes up to 50 per cent, if prices rise 10 per cent at the farm level, it will go up 4 per cent presumably at the retail level. That is what should happen overall.

Co-Chairman Mr. BASFORD: I am glad you answered that way. I am not for a moment suggesting that the farmer should not get a decent price for this product, or that he is not entitled to a good living; but some people seem to discuss this whole area in a vacuum, and seem to suggest sometimes that the producer's price has absolutely nothing to do with the consumer price.

Mr. KIRK: Not me.

Mr. WHELAN: Could I ask a supplementary? When you say it has nothing to do with the consumer price, I think it definitely has something to do with the consumer price. We had evidence presented here the other day that the can costs more than the food inside, in some instances double. Why do they not make a cheaper can?

Mr. KIRK: What it had to do with consumer price from 1949 to 1964, first of all, was that it kept it down. That is what farm price had to do with it overall, because the farm price did not go up. As to whether the can costs more than the farm product that goes into it—

Mr. WHELAN: That is just a bare can; no advertising or anything else.

Co-Chairman Mr. BASFORD: These were the margins that Mr. Kirk spoke about a moment ago.

Mr. KIRK: It may sound shocking, and it may be shocking, but as far as I am concerned there is no revealed truth that says one product must cost less than another product because of its nature, whether it is a farm product or a can. If the cans cost more to produce than the peas that go into them—if they do—then they do. On the other hand, if the price of peas is exploitative of the farmer, then that price should go up.

Mr. WHELAN: Recently I received a letter from a farmer who imported a manufactured article from the United States: he paid 8 cents difference on a dollar, 22 per cent duty—I do not know of any agricultural product that has that high a tariff on it—11 per cent sales tax and 5 per cent provincial tax. You figure out what he paid for it. This is to protect the Canadian manufacturing industry.

If we had that type of protection of agriculture in Canada there certainly would be a lot higher prices for producers and consumers both.

Co-Chairman Mr. BASFORD: We are a free trade party now.

Mr. WHELAN: I should like to correct something I said earlier. I said Dr. Deutsch had said all the people—I think this was the terminology I used—could afford to pay the price of food in Canada. I should have said the wage earners were not paying too much for the price of food, because he did make an exception of those on fixed incomes.

Senator INMAN: Would Mr. Kirk comment on this. A chain store charged 20¢ for a 5 lb. turnip, when turnips were only 1.5¢ to 2¢ fresh from the field only half a mile away, and they were not waxed turnips at that. Is not that high percentage of profit, even considering the overheads? One of those turnips would not be enough for a family of six. I know, because I bought the turnip.

Mr. KIRK: You see, in a specific case like that the answer I give is that I like you, would like that cost over and above the 2¢ paid to the farmer to be reduced. I recommend that we find out whether it is too high. Frankly, I do not know whether it is too high in that particular case. I just don't know. But the turnips are waxed, transported, and this, that and the other thing.

Senator INMAN: These were not waxed but fresh from the field. That is a thing that I think should be looked into, because that is a very high percentage of profit. I did not stop at one store; I went around and they were all the same price. The other thing I was going to comment on was the tariff on bananas. I would like to see that taken off, because I happen to know that there are infants born who cannot tolerate anything else in diet except bananas. Sometimes this causes a hardship, and that is something we could work on. It creates a hardship for parents, because these infants have to have nothing but bananas three to six times a day still are five or six years old.

Mr. WHELAN: If I could make one comment on bananas. I think we are getting the wrong impression. Bananas are produced by the slave labour of people making $10 a month, when we complain about men in Canada getting $10 a day. If we are going to take advantage of slave labour in undeveloped countries and holler about 1¢ on 1 lb. of this type of product, then I am for that 1¢ or 2¢ to come off if it is going to those producers of the bananas who are on a substandard standard of living on which we wouldn't ask any Canadian to live.

Co-Chairman Senator CROLL: Mr. Whelan, we are dealing with evidence here. Mr. Basford would not be advocating any production from slave labour. He just likes bananas, that is all, and he is entitled to like bananas.

Mr. WHELAN: All I am saying is that no other industry in this country is asked to compete with slave labour, but you are asking agriculture here to compete with this slave labour because we grow food here that competes with it.

Co-Chairman Senator CROLL: He is not asking that at all.

Mr. O'KEEFE: Mr. Chairman, I have only been appointed to this committee this morning so I only know what I have heard here. I have noticed a lot has been said about food specialists—farmers and a whole variety of producers, distributors and stores, but nothing has been said about fish. Has any opportunity been given to representatives of fish producers and the fish trade to come before this committee? I am quite sure if fish could be used more extensively as food it would certainly reduce the high cost of food.

Co-Chairman Mr. BASFORD: I know why you have been absent, for every understandable reasons. Senator Carter and I have done a good job representing the fish lobby.

Co-Chairman Senator CROLL: It was raised by Senator Carter and my co-chairman at the opening today. The question of the fish processors was raised

and we were asked what we ought to do by way of hearing them in order to get your story across.

Mr. O'KEEFE: Was it only mentioned today for the first time?

Co-Chairman Senator CROLL: It was the first time it was mentioned, yes. Was it mentioned before? I do not remember; I do not recall. Perhaps in that respect you have a point. Anything else?

Mr. O'KEEFE: No other questions, thank you.

Mr. SALTSMAN: I would like to ask Mr. Kirk a question on a suggestion he put before the committee regarding the need perhaps to look into the way our distributive system is set up, and see if there are not other ways of doing this, either through experimentation, evaluation or research. Am I interpreting you correctly in that?

Mr. KIRK: Correct.

Mr. SALTSMAN: Is it correct to say that you visualize perhaps two types of merchandizing activities, on the one hand the sort of system we have at present with the supermarket arrangement with brand names, where you have a pretty wide variety, advertising, colour and romance, and on the other hand a type of co-operative store with perhaps limited choice, store brands, special types of packaging, customer involvement, in order to provide the customer with a choice as to whether she wants the romance type of the bare bones type at a lower price?

Mr. KIRK: That is one of the alternatives that is possible.

Mr. SALTSMAN: As Mr. Whelan pointed out, co-ops have found themselves in considerable difficulties in the past when they have tried to get into the market, for a number of very understandable reasons. I understand there is one in Ottawa that is doing quite well. Is there any way in which the government, for experimental reasons, or for the purpose of finding out how this type of operation would work to the benefit or detriment of the consumer, has some role to play in encouraging an approach of this type of co-op, and do you have any practical solutions or suggestions to make as to what the role of the government might be in this?

Mr. KIRK: If the government, or this institution, or somebody, were to do an analysis, for example, taking what is sold in a store, making an assessment, on certain assumptions presumably, like all analysts do, as to the food products available that represent, say, 90 per cent of the purchases in a store, with a number of brands to give a full selection of qualities, and had a cost analysis of what it would then cost, compared with the present retail margins, to run a grocery and meat store, for example, on that basis, I think this would be a possible thing to do. Then you say to the public, and to the industry—not just the co-ops but industry—"If you do this and people come to the store you can sell, presumably, at such-and-such a price less overall." That is the kind of research I mean.

Co-Chairman Senator CROLL: Are you talking about standards?

Mr. KIRK: I am talking about the numbers of alternative grades and brands that you have. You have to analyze whether there is any meaningful, or how much, difference between brands, for example. As I say, you have to make assumptions. If you are going to give everybody every tiniest variation that there is of H.P. sauce—to take the first thing that comes to mind—you have to have every brand of H.P. sauce on the counter. But if you were willing to assume that the consumer was interested in lower prices, she might get along in a store carrying only one brand. That is an example. There would have to be all kinds of decisions made in setting up this imaginary store.

Mr. SALTSMAN: Let me take it perhaps a step further. If instead of doing an abstract evaluation—by which I assume you are thinking of an analysis by economists?

Mr. KIRK: That is one way.

Mr. SALTSMAN: —suppose we were to set up an sctual store with a team in it to make these evaluations, to test various products on the market and determine that one particular variety would be stocked rather than the six or seven that might be available, trying to do it on a cost basis of the consumer wishing to make a choice from a limited selection at as low a cost as she can possibly get. Do you see this as a possibility, or of value to the consumer?

Mr. KIRK: That is another perfectly valid research technique, actually to do it, a pilot project. I see nothing wrong with it.

Mr. SALTSMAN: Set up a store and try these ideas out on behalf of the trade and the consumer. For instance, people in the retail trade themselves might find that they go off on the wrong track and perhaps the consumer would be prepared to take certain things rather than others.

Mr. KIRK: I see nothing wrong with such an effort, soundly developed.

Senator MCDONALD: I was interested in your remarks, Mr. Kirk, in reply to questions by our co-chairman, Mr. Basford, telling the committee that when agricultural products increased in price to the producer—for instance, pork and beef—naturally there was an increase to the consumer, and I would like to relate that to your statement on page 12 of your brief. Before I make that relationship, I would also draw the attention of the committee to the many and varied questions we have had concerning advertising.

I think it is true to say that there is a general feeling among the committee that if advertising was not quite so expensive there might be a decrease in the cost of living. I am not one of those who want to defend advertising; if they want that they will get someone more capable than I am to do it. I am certainly not in favour of it. Nothing provokes me more than a lot of this advertising, which in my opinion is a lot of gobbledygook and untruths to begin with.

On page 12 you talk about the increase in the price of a loaf of bread from 1949 to date. To my knowledge, bread has about as little advertising as any foodstuff I can think of, yet we have had a 90.1 per cent increase in the price of bread from 1949 to date. The producer of the wheat that went into the bread gets about 1¢ per loaf more; there is very little advertising; yet it has had about as spectacular rise in price to the consumer as any other food product. I do not think advertising is the cause. The increase in the price of the raw material is not the cause. If advertising has no effect and the price to the producer has no effect, where did this 90.1 per cent increase come from?

Mr. KIRK: I don't know. Of course, it has been making the wheat farmers mad for years, because there has been a tendency for price rises in bread to follow the latest upward fluctuation in wheat price, but over the years there has not been enough change in wheat prices to make that much difference.

Co-Chairman Senator CROLL: Why is it that every time there is a bit of a rise in the price of wheat, an infinitesimal one, the people who make the bread raise the price but you do not hear all you people screaming at that and saying what you are saying here?

Senator MCDONALD: We have been screaming. You just have not been listening.

Mrs. MACINNIS: Perhaps the committee is not on the right track. The price of the raw material in the case of bread has not increased. It has little or no advertising; at least, that is my impression; very seldom do you see bread

advertised, so it could not be the advertising. Yet it has gone up 90.1 per cent. I am not throwing this question at you, Mr. Kirk. I am just wondering if the committee has missed something somewhere.

Co-Chairman Mr. BASFORD: How many bakeries does Mr. Weston own? I think that is a very material question.

Mrs. MACINNIS: Maybe that is the answer.

Co-Chairman Mr. BASFORD: I hope one day we will get to him.

Senator MCDONALD: I wanted to go back to the co-ops for a moment. I happen to be a member of many co-ops and I have done a lot of business with them. First of all I want to say I think there is a place in our society for the co-operative movement. I can only speak of my own province, because I do not know anything about them outside my own province, but in my opinion there has been a tendency for the co-operative movement in the Province of Saskatchewan to become more and more a concern doing business in exactly the same fashion as its competitors, namely the chain stores. For instance, the largest co-operative store in my province had sales in 1962 of $1.4 million and lost money. In 1963 they had sales of $1.36 million and lost money again. It is estimated that they will have to have sales of $2.7 million a year in order to break even. It is estimated that the patrons or members of this co-operative spend an average of $1,800 a year on products that are handled by the co-operative. But there are patrons who spend only about $200 rather than $1,800 a year in the co-operative. It is my contention that, if the co-operative system worked as co-operative systems were meant to work in the first place, in other words, if they distributed their earnings back to their customers at the end of each year, then the customers would be getting much more than $200 out of a potential of $1,800 in the co-operative. They would have more business and they would be paying dividends back.

This co-operative, prior to 1962, was paying dividends. You know the co-operative I am referring to, the Sherwood Co-operative. They were paying dividends. In 1962 they built a posh new store to compete with the chain stores. They have as good a building, equipment, lighting, parking lot and everything else. But I want to come back to the two figures of the gross business in 1962-63, $1.4 million and $1.36 million. They have to have $2.7 million of business every year to pay a dividend, and the only way they can get this business is through advertising.

Some of the largest advertisers in the Province of Saskatchewan today are the co-operatives, in radio, television and newspapers. So it seems to me that not even the co-operative organization can survive in this modern age and compete without doing all of the things that its competitors are doing.

Co-Chairman Senator CROLL: Are they out of the red now?

Senator MCDONALD: No.

Co-Chairman Senator CROLL: They are still in the red.

Senator MCDONALD: They are advertising now.

Co-Chairman Senator CROLL: The volume is not there?

Senator MCDONALD: But it is growing much faster. I don't know this for a fact, but it would appear to be growing much faster as a result of advertising.

Co-Chairman Senator CROLL: Yes.

Senator MCDONALD: I do not want to repeat, but I think if they paid their dividends out in cash they could buy business by doing so. The Saskatchewan wheat pool proved that. But, if you send a person a piece of paper saying "I owe you $328. You pay the income tax on it and I will keep the money," you cannot buy business by doing that.

They have lost one incentive for people to do business with the co-operatives through not paying cash dividends and they have had to revert to doing the things that their competitors have been doing.

Co-Chairman Senator CROLL: You mean they have declared a dividend which makes it taxable without paying it? It's kind of rough, isn't it?

Senator McDONALD: They send you a piece of paper.

Co-Chairman Senator CROLL: Yes, I see your point.

Senator McDONALD: Which says that they owe you so many dollars and if you pay the tax they will keep the money.

Co-Chairman Senator CROLL: It seems fair, according to the modern methods of doing business.

Senator O'LEARY (*Antigonish-Guysborough*): You mean to say that you get no interest on it?

Senator McDONALD: No, no interest.

Co-Chairman Senator CROLL: I see your point. Mrs. MacInnis.

Mrs. MACINNIS: Mr. Kirk, are there any other countries in western Europe or among the western countries, except Canada, that have not got any national legislation governing co-operatives? Is Canada the only one without a co-operative act?

Mr. KIRK: I could not say this directly from my knowledge, but I would certainly be very surprised if there was any European country that did not have a co-operative act. I have never heard this complaint raised and I am certain I would have heard of it.

Mrs. MACINNIS: Would you think it would be a good idea, if we are going to be interested in co-operatives, and so on, to have some kind of legislative framework in which they could operate?

Mr. KIRK: Yes, I think it would. The co-operative movement has reached a conclusion for many, many years. It would greatly facilitate their work, if they could. It would help considerably for many purposes, and it would be relatively simple to operate under a federal act.

Co-Chairman Senator CROLL: There are provincial acts.

Mr. KIRK: Yes.

Co-Chairman Senator CROLL: In most provinces at any rate.

Mrs. MACINNIS: This is my last question. How long is it since the co-operative movement has been trying to get co-operative federal legislation?

Mr. KIRK: They had that figure in their brief the other day. It seemed to me it was a large number of years, something like 30 years. However, it is many, many years.

Mrs. MACINNIS: What is the holdup?

Mr. ALLMAND: Mr. Chairman, on a point of order.

Mr. KIRK: I do not think this is the fault of the co-operatives.

Mr. ALLMAND: Mr. Chairman, on a point of order. We have been asking a lot of questions of a gentleman who says he is not an expert in the field of co-operatives. We had a co-operative here before and we are going to have a co-operative here again. I think if we want these questions answered we should invite the co-operatives here and ask them the questions. It is certainly not fair to keep asking this gentleman questions on co-operatives, when he admits that he is not an expert on the subject.

Mrs. MACINNIS: Mr. Chairman, speaking to the point of order, Mr. Kirk is a gentleman with a tremendous amount of experience in co-operative work.

Surely we do not have to narrow ourselves in this way. We have not been doing so in the past.

Co-Chairman Senator CROLL: I think Mr. Kirk answered the question in any event. The answer stands.

Mrs. MACINNIS: That is true, but I just wanted to speak to the point of order.

Co-Chairman Senator CROLL: Are there any other questions?

Mr. ALLMAND: Mr. Kirk, I want to know if there is any research being done into the possibility of producing food—especially vegetables, fruit, cereals and so forth—in large factories with chemicals and so on and so forth. I know this may sound science fiction-like, but in this age when we have space ships, computers, indoor ball parks and all sorts of things like this, and especially with the population explosion—you hear figures indicating that at the turn of the century we will have so many people per square yard in the world, and that the population is going to double—it seems to me we will have to grow food indoors under controlled conditions with fertilizers and chemicals, avoiding the seasons, weather changes and so forth, thereby greatly increasing the production of food.

I have seen films from Japan which show that they are experimenting in this sort of thing. I wonder if we are doing this in Canada or whether it is being done anywhere in the world besides Japan on a large scale?

Mr. KIRK: I know there is experimentation in several fields, in, as you sort of say, what might seem like far-out fields of food production—such things as experimentation in multiplication of proteins through algae and the utilization of grains for synthetic meats. There has been a certain amount of work done on hydroponics, a sort of controlled production in a nutrient solution. You get a nutrient solution, plants are anchored in this, and you grow the product that way under strictly controlled conditions of nutrition, light, heat and everything else. There is a lot of work done in greenhouses on an experimental basis, and you could start costing it and see what it costs you. There is a lot of product grown in greenhouses and a great deal of plant breeding work is done now under fluorescent lighting for speeding up the growth rate. It increases the number of years and generations you can have in a short period of time for plant breeding purposes. It might be interesting to see if you could do some kind of costing on this. I am sure there is almost enough data there to make some kind of estimate.

I would suspect that as yet anyway we do have the land. That is a natural resource, and the business of growing-houses, putting in all the ventilation, heating and everything that will be necessary for growing our general farm crops this way, I strongly suspect would be wildly uneconomic yet.

Co-Chairman Mr. BASFORD: By that time we are all going to be eating fish, seaweed and plankton.

Mr. ALLMAND: People say that by the end of the century, which is less than 40 years away, we are going to double our population. That means that within 20 years after that we will be doubling it again. It seems this is much more urgent than perhaps we would like to believe. Maybe in Canada, where we have a lot of open space, it does not seem to be so bad.

Co-Chairman Senator CROLL: I cannot get too excited about 40 years from now. I am going to leave it to you, because you will probably be around but I will not.

Mr. ALLMAND: There are a lot of people starving in India today.

Senator CARTER: Does your organization take very much interest in the actual food value of the fruits, vegetables and other farm products we produce? Do you conduct any research, or are you asking the Government to conduct research into our food products, to ascertain their percentage of proteins, minerals, vitamins and so on—how they compare year after year, or how they

compare with other countries? Are you assuming the food value remains the same every year?

Mr. KIRK: I must say I think the right answer to that is that the farm organization has not embraced this so far as being an urgent question to which they have turned their preoccupations. Maybe there are real questions here. I am not saying that there are not, but I am saying that farm organizations have not paid a lot of attention to this—that is, the nutritional content—but the consumer acceptance of this is another thing again.

Co-Chairman Senator CROLL: If there are no other questions I should like to say to Mr. Kirk, on behalf of the committee, that he is as knowledgeable and informative today as he has always been when he has appeared before parliamentary committees. It is a delight for us to have him here. I am sure Mr. Chabot has given him moral assistance in sitting by and watching and listening, and he will, no doubt, have learned from this hearing this afternoon. Thank you very much, Mr. Kirk.

The committee adjourned.



First Session—Twenty-seventh Parliament

1966

PROCEEDINGS OF THE SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON

CONSUMER CREDIT

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THURSDAY, DECEMBER 1, 1966

JOINT CHAIRMEN

The Honourable Senator David A. Croll

and

Mr. Ron Basford, M.P.

WITNESSES:

The Procter & Gamble Co. of Canada Limited: Mr. George Williams, President and General Manager; Mr. F. E. Pollock, Director of Research and Development; Mr. J. R. Baillie, Vice-President, Manufacturing; Mr. A. D. Garrett, Director of Advertising.

Lever Brothers Limited: Mr. John C. Lockwood, President; Mr. Ronald W. Bates, Vice-President, Marketing; Mr. Peter G. Townley, General Sales Manager; Mr. Athol P. McDiarmid, Financial Director.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1966

25233—1

MEMBERS OF THE SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON CONSUMER CREDIT
(PRICES)

For the Senate

Hon. David A. Croll, Chairman

the Honourable Senators

Carter,	Hollett,	O'Leary (*Antigonish-Guysborough*),
Cook,	Inman,	Thorvaldson,
Croll,	McDonald (*Moosomin*),	Urquhart,
Hastings,	McGrand,	Vaillancourt—(12).

For the House of Commons

Mr. Ron Basford, Joint Chairman

Members of the House of Commons

Allmand,	Duquet,	McLelland,
Andras,	Horner (*Acadia*),	O'Keefe,
Basford,	Irvine,	Olson,
Cashin,	Leblanc (*Laurier*),	Otto,
Choquette,	Lefebvre,	Ryan,
Clancy,	MacInnis,	Scott (*Danforth*),
Code,	Mandziuk,	Smith,
Crossman,	McCutcheon,	Whelan—(24).

36 members

Quorum 7

SUPPLEMENTARY ORDERS OF REFERENCE

Extract from the Votes and Proceedings of the House of Commons, September 9, 1966:—

"Mr. Sharp, seconded by Miss LaMarsh, moved,—That the Joint Committee of the Senate and House of Commons appointed by this House on March 15, 1966, to enquire into and report upon the problems of consumer credit, be instructed to also enquire into and report upon the trends in the cost of living in Canada and factors which may have contributed to changes in the cost of living in Canada in recent months;

And that a Message be sent to the Senate to acquaint Their Honours thereof and to request the concurrence of that House thereto.

And the question being proposed;

Mr. Pickersgill, seconded by Mr. McIlraith, moved in amendment thereto,—That the motion be amended by striking out the words "by this House on March 15, 1966" where they appear in the second line thereof and by inserting in the motion as the second paragraph the following:

"That the Committee have leave to sit notwithstanding any adjournment of this House;"

And the question being put on the said amendment, it was agreed to.

After debate on the main motion as amended, it was agreed to."

Extract from the Votes and Proceedings of the House of Commons, October 7, 1966:—

By unanimous consent, Mr. Basford, seconded by Mr. Allmand, moved,—That the First and Second Reports of the Special Joint Committee on Consumer Credit and Cost of Living, presented to the House on Friday, April 1, and Thursday, October 6, 1966, be concurred in.

After debate thereon, the question being put on the said motion, it was agreed to.

Accordingly, the said reports were concurred in and are as follows:

FIRST REPORT

Your Committee recommends that seven (7) of its Members constitute a quorum, provided that both Houses are represented.

SECOND REPORT

Your Committee recommends that the House of Commons section of the said Committee be granted leave to sit while the House is sitting.

LÉON-J. RAYMOND,
Clerk of the House of Commons.

25233—1½

Extract from the Minutes of the Proceedings of the Senate, September 13 1966:—

"The Honourable Senator Connolly, P.C., moved, seconded by the Honourable Senator Hugessen:

That the Senate do agree that the Joint Committee of the Senate and House of Commons appointed to enquire into and report upon the problems of consumer credit, be instructed also to enquire into and report upon the trends in the cost of living in Canada and factors which may have contributed to changes in the cost of living in Canada in recent months; and

That a message be sent to the House of Commons to acquaint that House accordingly.

After debate, and—

The question being put on the motion, it was—

Resolved in the affirmative."

Extract from the Minutes of the Proceedings of the Senate, Tuesday, November 22, 1966:—

The Honourable Senator Connolly, P.C., moved, seconded by the Honourable Senator Beaubien (*Provencher*):

That the Third Annual Review of the Economic Council of Canada relating to Prices, Productivity and Employment, dated November 1966, which was tabled in the Senate today, be referred to the Special Joint Committee of the Senate and House of Commons on Consumer Credit and Cost of Living.

The question being put on the motion, it was—

Resolved in the affirmative.

J. F. MacNEILL,
Clerk of the Senate.

MINUTES OF PROCEEDINGS

THURSDAY, December 1, 1966.

Pursuant to adjournment and notice the Special Joint Committee on Consumer Credit (Prices) met this day at 9.30 a.m.

Present: For the Senate: The Hon. Senators Carter, Cook, Hollett, Inman, McDonald (*Moosomin*) and McGrand.—6.

For the House of Commons: Messrs. Allmand, Basford (*Joint Chairman*), MacInnis, O'Keefe, Scott (*Danforth*) and Smith.—6.

In attendance: Dr. R. Warren James, Special Assistant; Mr. Marcel Joyal, Q.C., Associate Counsel; Mr. Jacques L'Heureux, C.A., Accountant.

The following were heard:

The Procter & Gamble Co. of Canada Limited:

Mr. George Williams,
President & General Manager.

Mr. F. T. Pollock, Director of Research & Development.

Mr. J. R. Baillie,
Vice-President, Manufacturing.

Mr. A. D. Garrett,
Director of Advertising.

At 1.15 p.m. the Committee adjourned.

At 3.00 p.m. the Committee resumed.

Present: For the Senate: The Hon. Senators Carter, Cook, McDonald, (*Moosomin*), McGrand and O'Leary (*Antigonish-Guysborough*).—5.

For the House of Commons: Messrs. Allmand, MacInnis, O'Keefe and Scott (*Danforth*).—4.

In attendance: Dr. R. Warren James, Special Assistant; Mr. Marcel Joyal, Q.C., Associate Counsel; Mr. Jacques L'Heureux, C.A., Accountant.

In the absence of the Joint Chairman, the Honourable Senator McDonald (*Moosomin*), was elected Acting Chairman.

The following were heard:

Lever Brothers Limited;

Mr. John C. Lockwood,
President.

Mr. Ronald W. Bates,
Vice-President, Marketing.

Mr. Peter G. Townley,
General Sales Manager.

Mr. Athol P. McDiarmid,
Financial Director.

At 6.00 p.m. the Committee adjourned until Tuesday next, December 6, at 9.30 a.m.

Attest.

John A. Hinds,
Assistant Chief,
Senate Committees Branch.

THE SENATE

SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON CONSUMER CREDIT

EVIDENCE

OTTAWA, Thursday, December 1, 1966.

The Special Joint Committee of the Senate and House of Commons on Consumer Credit met this day at 9.30 a.m.

Senator David A. Croll and Mr. Ron Basford, M.P., Co-Chairmen.

Co-Chairman Mr. BASFORD: Honourable senators and members, before we proceed with today's business there is a small matter I would like to deal with. Senator Croll has had to leave Ottawa on some urgent personal business. Before leaving, he talked with me to make sure I would be here today and for the balance of the week.

I had intended that this would be so, but it develops now that—if the planes are flying this afternoon, about which there is some doubt, I understand—I have to leave Ottawa this afternoon. I apologize to the committee for this.

With the concurrence of the committee, I would like to name, to act as chairman this afternoon, Senator A. Hamilton McDonald (Moosomin) who would act in the absence of Senator Croll and myself. Is the committee agreeable to that? Hearing no objection, I take it that is the consensus of the committee. It will be noted in the minutes.

Again I apologize to the committee for this and I apologize also to the witnesses we will have this afternoon. However, the circumstances are unavoidable. I know that both Senator Croll and I will read with the utmost interest the evidence which may be given in our absence.

Our witnesses this morning are the Procter & Gamble Company of Canada, Limited, represented at the table by Mr. George Williams, President and General Manager, on my immediate left; Mr. F. E. Pollock, Director of Research and Development, Mr. J. R. Baillie, Vice-President in Charge of Manufacturing; and Mr. A. D. Garrett, Director of Advertising; together with other officials of the company.

Without further introduction, I would ask you to proceed, Mr. Williams.

Mr. George Williams, President and General Manager, the Procter & Gamble Company of Canada Limited: Mr. Basford, honourable members of the Special Joint Committee of the Senate and House of Commons: I am George Williams, President and General Manager of The Procter & Gamble Company of Canada, Limited, a wholly-owned subsidiary of the Procter & Gamble Company of Cincinnati, Ohio. I have here with me a number of my associates, including our Director of Research & Development, Mr. F. E. Pollock, who will later be talking with you about the way we develop new products; our Vice-President in charge of Manufacturing, Mr. J. R. Baillie, who will briefly discuss our productivity program; and our Director of Advertising, Mr. A. D. Garrett, who will review our marketing operations with particular emphasis on new product introductions.

We are glad to be here with you today because we believe that the prices inquiry in which you are engaged is a very important one. We are hopeful that what we have to tell you will make a constructive and helpful contribution to your deliberations. For the benefit of those of you who may not be too familiar with our company, I propose to give you some background information about us. Before I do so, I would like to make a basic statement so far as our company is concerned on this matter of prices. Our performance in the area of maintaining stable prices for our products has always been excellent. For example, it may interest you to know that over the past 5½ years our prices to the trade for our main product groups have only increased as follows: Soaps and detergents, 4.5 per cent; food products, 3.2 per cent; toiletries, 7.9 per cent. Our average increase across all these product categories during this 5½ year period has amounted to only 4.66 per cent.

Perhaps of even more immediate interest to this committee, our prices for these same product groups over the past year and a half have changed as follows: soaps and detergents, up 1.4 per cent; food products, up 2.3 per cent; toiletries, up 4/10ths of 1 per cent. The increase in these groups as a whole over this same 18-month period averages 1.5 per cent. This 1.5 per cent increase contrasts with the 3.9 per cent increase in the Consumer Price Index overall and the 7.5 per cent increase in the food component with which you are all familiar. These latter figures cover, as you know, only a 12-month period ending August last.

And now let me tell you something about our company. The Procter & Gamble Company of Canada, Limited is a medium-sized company employing approximately 1,750 people with its headquarters in Toronto and with local offices, dealing primarily with sales and distribution matters, located in Halifax, Montreal, Toronto, Winnipeg and Vancouver. The company has a board of 12 directors, including myself, of whom 5 are Canadian, 2 are British and 5 are U.S. citizens. Nine of our directors reside here in Canada. However, the company's operations are directed and managed by what we call a Management or Administrative Committee consisting of myself, as President and General Manager, and the 9 heads of our chief operating departments. These departments are Manufacturing, Research & Development, Purchasing, Finance, Sales, Advertising, Industrial Sales, Food & Toilet Goods and Corporate Affairs, including Legal. Of the 9 operating heads of these departments, 6 are Canadian; 1 is British and 2 are U.S. citizens. Additionally, the Secretary of our company is a Canadian.

The company is primarily engaged in the manufacture of a wide range of consumer products, including soaps, detergents, cleaners, shampoos, dentrifrices, cake mixes, retail shortenings, and so on—a total of 47 items. Its principal factory is located at Hamilton, Ontario, where the full range of our products is manufactured other than cake mixes. We have a second plant at Pointe Claire, Quebec where our cake mix facilities are located and where certain of our other edible food products are also produced.

We have been operating in Canada for a long time as evidenced by the fact that our Hamilton plant first went into production in 1915 and during this period of over 50 years we have developed a number of concepts which we regard as important; and some of which I would like to discuss briefly with you here today.

First, we believe that we have a duty to our employees. As we see it we have an obligation to provide each one of them with the maximum opportunity for personal development and personal growth. Perhaps even more important, we have an obligation to provide them with job-stability which is absolutely crucial to them if they are to plan with confidence their own future and the future of their families. This opportunity for maximum personal development

and growth is assured by our policy of promoting entirely from within. We do not look to sources other than our own to fill our executive and supervisory management needs.

Job-stability is assured by our policy of guaranteed employment. The Procter & Gamble guarantee of regular employment plan, as it is known, basically provided our hourly-paid employees who have had 24 consecutive months of employment with us with a guarantee of regular employment for not less than 48 weeks per calendar year. This plan—to the best of our knowledge the only one of its kind in Canada—has been in effect for more than 40 years; and throughout this long period of time has provided our Canadian plant employees with virtually full-time work, even including those bitter depression years of the 30s. I need hardly add that in meeting these two basic obligations to our people our management is faced with a very real challenge at all times.

We have to learn, and learn thoroughly, the art of developing strong management people from within our own organization. This is essential if we are to be sure of having today and in the future the quality of leadership which a company like ours must have. Additionally, if we are to meet the obligations we have accepted under our Guaranteed Employment Plan, it is essential that our business shall have great stability, that it shall not be subject to violent fluctuations. Even more important—our business must continue to move forward at a healthy rate. If it were not to do so, the present-day skills and productivity of our employees could not be properly and fully utilized. What is more, we would certainly not be able to accommodate for the still greater skills, the still greater productivity that they can be expected to develop in the future.

Secondly, we have a duty to our shareholders—to manage the business economically, efficiently and competitively and in such a manner that our company is looked upon at all times a a good corporate member of the community in which it is operating. We have an obligation to do this while at the same time making a profit that is a fair one, a profit that will show a reasonable return while still providing for the orderly growth and development of the business.

Thirdly, and this is not solely from the standpoint of self-interest, we have to feel and do indeed feel an obligation to our consuming public. What keeps us in business is providing value to this consuming public. Value is the combination of many elements ranging from top quality and top performance through to convenience, price, safety and consistency, and each individual consumer, when making her buying decision, weighs these elements in our own brands and in those of our competitors.

In our experience, the average Canadian woman is a keen and discriminating buyer. Shopping in her local grocery store, she has available to her as a direct result of our free enterprise system, a wider and more appealing choice of products of all kinds than the world has ever known; a choice that would have been the envy of any woman even as little as 20 years ago. In such an environment, the only way that our company or any other company can expect to gain and hold the Canadian housewife's favour and support is by doing two things for her. First, by providing her today with products of superlative quality and value, competitively priced and conveniently packaged. Second, by having under continuous review her ever-changing needs and tastes and having under continuous development new products which will fully serve these ever-changing needs and tastes in the future.

As Director of Research & Development of our company, Mr. Pollock will be covering a little later on how we in Procter & Gamble go about this task of defining and re-defining the needs of our Canadian consuming public; and how, in the light of these needs, we either make major modifications to our existing products or, if such modifications will not fill the bill, how we proceed to invent entirely new products which will give the consumer what she wants and in the

form she wants it. All I will say is that our record in this area of our business over the past six years has, we believe, been a good one.

In 1960-61 we introduced Crest Toothpaste; and, while Mr. Pollock will later be covering in considerably more detail this important subject, it is perhaps permissible for me to digress for a moment and tell you something about a product, and the marketing plan which supported it, which is universally accepted as having made a major contribution to the dental health of the Canadian people. As you will hear, Crest was the result of over 20 years of painstaking research not only by Procter & Gamble but also by some of the greatest experts in the world in the field of dental science. This research involved the expenditure of huge sums of money. It culminated in finding a way of doing something which had never been done before, i.e. of combining in one product the full cleaning action of a normal toothpaste with stannous fluoride, the one ingredient which, among the many hundreds that had been screened and tested, had been proven conclusively to be effective in reducing cavities.

Crest's introductory program, including the Crest advertising copy, involved the closest cooperation with the dental profession in Canada. Since introduction the brand's whole marketing program has consistently emphasized the three cardinal rules of good dental health—regular checkups; avoiding between-meal treats and regular brushing. This program of public education has included, at substantially below our cost, the provision to dentists for distribution to their patients of dental health kits including toothbrushes, Crest and proper brushing aids. More than 150,000 of these kits will be distributed this year alone in Canada. This is a continuing program. We are cooperating with school associations across Canada in providing, free of charge, teaching aids to supplement existing school curricula on dental hygiene. These aids are directed to both primary and advanced grades and include the making available of free dental health kits to all Grade 3 children. This program has received the highest testimonials from educators across the country.

In the same year of 1961 we introduced Cascade, a small volume specialty product for use in automatic dishwashing machines—a product which meets a need which no ordinary detergent, dry or liquid, is capable of meeting. In 1961-62 we introduced Duncan Hines Cake Mixes, thus providing the Canadian consumer, for the first time, with a product which combined all the inherent convenience of a prepared mix with end-result quality comparable to that of home-baked cakes. The introduction of Duncan Hines revitalized an industry which had declined during the 1950s basically, in our opinion, because of the limited consumer acceptability of the relatively poor quality mixes then on the market. It increased total consumption of cake mixes in Canada by over 20 per cent. More important, it resulted in a singificant upgrading of the whole product category, an upgrading which we believe is the major factor in the buoyancy of the Canadian cake mix market today.

In 1963 in a market dominated at that time by a single brand, we successfully introduced Downy Fabric Softener, a product which offered the consumer unexcelled performance in the area of fabric softening and fabric whitening; in the same year we introduced nationally Head & Shoulders Shampoo, the first truly effective anti-dandruff shampoo on the Canadian market.

Other new products I shall just mention; in 1963, Safeguard Toilet Soap, a toilet bar for personal use that is unique in combining unexcelled deodorancy with bacteriostatic effectiveness that is usually only associated with specialty products used by surgeons in the operating theatre. In 1964 Crisco Oil, a salad and cooking oil whose outstanding characteristics are its unequalled blandness and freedom from oily taste. In 1965 we introduced Secret Deodorant; and in 1966 Bold Laundry Detergent. In all, over this six-year period, we have introduced nine important new products to the Canadian consumer, each one a

product either performing better in one way or another than competing products already on the market; or a product that met a need that had never before been satisfactorily met at all. It may interest you to know that 47 per cent of our consumer business today is in products which did not exist in Canada 10 years ago; and that 78 per cent of our consumer business is in products which did not exist at all the end of World War 2

In a few minutes I would like to review briefly with you the progress which our company has made over the past 6 years, a review which will cover items 1 and 2 of the list of topics suggested to us by Dr. James as appropriate for discussion with you. But first let me cover here and now certain other specific items suggested by Dr. James which do not readily fit in with this presentation.

Item 3—The cost of our containers and other packaging materials and their percentage relationship to gross sales. This is shown at Appendix 1. From this Appendix you will see that, over the period under review, our dollar expenditure on these items has grown substantially, from $6.7 million in 1961 to $8.7 million in 1966. However, expressed as a percentage of gross sales, our packaging costs have not changed singificantly over the past six years or so. In 1961 they represented 8.7 per cent of gross sales; in 1966 they represented 9.0 per cent.

Item 4—How do we determine that our sales prices are competitive?—As you know, we cannot and do not set retail prices. However, it is a matter of primary concern to us that products of ours which command the same trade prices as similar products sold by our competitors shall not be at any price disadvantage on the grocer's shelf. We determine this by regular store checks carried out across Canada by our own sales organization.

Item 5—Our policy on specialty items such as coupons and "cents off" packs. This will be covered in some detail later by Mr. Garrett. In net, our position is that items such as these, provided they are properly tested and provided they are properly used, represent a bargain to the housewife, build consumer goodwill, and are good for our business.

Item 6—The sales price per unit of some of our principal products offered during selected weekly periods in 1965 and 1966. This is shown at Appendix 2. It covers the 18-month period from 1st June, 1965 through to today, 1st December, 1966. It shows that on our principal heavy duty laundry brands there has been, during this 18-month period, an increase in our prices to the trade of only about 2 per cent; while in the case of a number of our products such as toilet soaps, cleaners, dishwashing liquids, retail shortening and dentifrices, there has been no increase at all. As I told you earlier, our overall increase across all of our consumer products during this period amounts to only 1.5 per cent.

Item 7 asks whether our billing is net of all discounts or gross less discounts. It is our practice to bill gross with the 1 per cent discount we give for prompt payment being deducted by the customer provided payment is made within the specified 10-day period.

Item 8 refers to private labels and asks the extent to which we participate in the private label business. The short answer is that about 4 years ago we agreed to make a private label dry detergent for Interprovincial Co-Op., an important co-operative group operating principally in the Prairies but also in the Maritimes and Quebec. In the first year shipments amounted to approximately 8,000 cases; in the second year 4,000, cases; and today this business is running at roughly 2,500 cases per annum. At this reduced level the brand concerned represents an insignificant portion of our total volume. However, there is to us another very important aspect of the private label business to which I feel I must refer. Two fundamental statements have been made to this committee regarding private label brands. The one statement says that lower-priced private label brands have a role in the marketplace for those consumers who make their value

judgment primarily on the basis of price; and who are relatively less concerned with optimum performance and other aspects of value. We have no disagreement with this statement.

The second statement has asserted that lower-priced private label brands are just as good in quality and performance as the nationally-advertised brands. I obviously cannot speak for the products of industries other than our own. However, so far as Procter & Gamble nationally-advertised brands and private label brands are concerned, I can say categorically that this is not so. Later on we expect to illustrate to this committee some of the significant advantages which one of our own nationally-advertised products has over a typical private label brand.

Item 9 asks for a cost breakdown of 10 selected major commodities manufactured by our company in 1966. This is shown at Appendix 3 and covers 98.5 per cent of our total business.

Item 10 asks for a list of all household cleaners, including soaps and detergents, sold by Procter & Gamble to the retail trade with their brand names and package sizes. This information is given at Appendix 4.

Item 11 asks the question "Is it technically feasible to identify household detergents and similar products in terms of 'units of cleaning power'?" In doing her laundry—and here, I may say, she is different from the commercial laundry operator—the average housewife has to contend with widely varying conditions even from one week to another. The size of the washload; the fabrics to be washed; the type and amount of soil to be removed; the water temperature, a very important factor, all can vary widely. Some women use wringer machine; others use automatics; a few women do their washing basically by hand. Some housewives live in very hard water areas; others in very soft water areas. For all these reasons we do not consider it technically feasible to identify household detergents in terms of "units of cleaning power."

Now for a brief review of our company's progress over the past six years. As you will see from Appendix 5 our total gross sales over this 6-year period have risen quite steadily from $77 million in 1961 to $97 million in 1966, an increase of approximately 26 per cent. Our profits after tax declined over this same period from $4.2 million in 1961 to $3.1 million in 1966; from 5.4 per cent of gross sales to 3.2 per cent of gross sales. This profit figure of 3.2 per cent compares with our parent company's world-wide after-tax profit in 1966 of 6.7 per cent. For the committee's information and interest, we have, as you know, attached a copy of our parent company's latest financial statement.

Now a word about taxes. It may interest the committee to know that during this 6-year period Federal Sales and Excise Taxes on such Procter & Gamble products as soaps, detergents, cleansers, toiletries, and so on—which are, of course, classified as non-food items and as such are taxable by the federal Government—have increased by 36 per cent, from $5 million to $6.8 million. And, may I remind the committee, these sales and excise taxes take no account of the additional taxes which, in many provinces, the housewife herself pays at the check-out counter. For example, in Ontario today the provincial sales tax levied additionally on products like Tide and Camay Toilet Soap amount to an additional 5 per cent on the retail selling price.

In Appendix 6 we have given a breakdown of the total tax contribution, including corporate income taxes, which our company made to municipal, provincial and federal tax revenues in 1966. This amounted to $10½ million—a very substantial sum for a company of our size.

In our industry, as in other industries both here and elsewhere, there are many pressures which make it difficult to earn a satisfactory level of profit; and this in spite of the intensive efforts which, in all departments of our company, we

are making to nullify the inflationary escalation of our costs or, better still, to reduce these costs. Mr. Baillie will later tell you something about Procter & Gamble's cost savings program which I think you will find of interest.

During the past 18 months our wage costs, following the pattern of Canadian industry in general, have increased substantially. In our case this increase amounts to 9 per cent. Consequent upon the settlement of the railway strike we estimate that on rail transportation alone our increase in distribution costs is not less than $250,000 per year. Over this same 18-month period, in line with our policy of continuous product improvements, many of our products have undergone important changes leading to better performance or greater convenience and certainly to better value to the housewife. For example, our Cheer brand has undergone four such changes. And these improvements have all cost money.

At the same time, and again I refer you to Appendix 2, you will note that our prices to the trade of the great majority of our brands over this period have not increased, and that, where an increase has been made, it has generally speaking, been of quite modest proportions.

Obviously, a major factor in our sales growth, but also in our profit decline, has been the heavy program of new product introductions to which I have already referred; and which has reflected itself in proportionately higher advertising and sales promotion costs than was the case 6 years ago. In 1961 our advertising and promotion expenditures represented 11.1 per cent of gross sales. In 1966 they represented 14.7 per cent of gross sales, an increase which we regard as very modest for a consumer goods company which has undertaken an expansion program of the size that we have undertaken. To us, the expansion and growth we have achieved are vitally important. The reduction in our profits we regard as a very worthwhile price to pay for building our business for the future in one of the most competitive environments in the world. We hope that 6 years hence we will be able to look back on a similar period of dynamic change and expansion because, ladies and gentlemen, we are in business in Canada for the long haul. We do not and cannot afford to think short-term.

And now, if there is one thing in this brief review that I have tried to bring out, it is that a company such as ours is absolutely dependent for its survival and for its growth on its ability to identify consumer needs; and to design products which will satisfy those needs at a price which is both competitive and affordable by our consumers. To us, the definition of the consumer needs comes first, then the product; and then the marketing plan designed to sell the product.

With your permission I will now ask Mr. Pollock to tell you something of how we in Procter & Gamble go about this all-important product development task. His talk which is in no way meant to blind you with science, will cover just one or two of the highly complex chemical and engineering aspects of our research and development work. It will, I believe, amply demonstrate that, unlike the old days when making soap was a relatively simple matter of heaping together in a soap kettle some basic oils and fats along with caustic soda, it is today a highly technical business requiring the use of hundreds of different ingredients, many of them extremely sophisticated, along with engineering, chemical and research skills of the highest order.

From what your co-chairmen said to me when I was present at one of your earlier meetings, we believe that you will find this of considerable interest.

Mr. F. E. Pollock, Director of Research and Development, the Procter and Gamble Company of Canada, Limited: Procter & Gamble research activities are based upon the belief that products are the one fundamental factor in our relationship with consumers. Our company owes its success to the development of products which are consistently effective, economical, safe, convenient, and pleasant to use. By providing these qualities over the years, we believe we have contributed significantly to the steadily rising standards of health and comfort enjoyed by the people of Canada.

We have in Hamilton over 100 people, including 45 professional scientists and engineers, devoting their full time to research and development. We also benefit enormously from research carried out in other divisions of Procter & Gamble, particularly in the United States. To the extent that their product developments are applicable in Canada, they are used in our program.

We occupy modern facilities with a value of over $2 million. In addition to laboratories for small-scale work, we have pilot plant facilities for edible oil refining, bleaching, hydrogenation, and deodorization; for cake-mix processing; for selected soap and detergent processes; and for packaging development. Equipment suitable for the analytical and experimental techniques required for our types of products has been provided; for example, vapor phase and thin-layer chromatography; microscopy, spectroscopy; light transmission, reflection and diffraction measurements; and package testing.

Three-fourths of our research is directed toward new of improved products and processes. The remainder is supporting work for cost reduction, work to accommodate domestic raw materials, maintenance of product quality standards, etc.

PRODUCT DEVELOPMENT

Underlying our work to create products for every-day use is a complex system of scientific knowledge, engineering ability, and understanding of consumer needs. I want to use our Crest Toothpaste developments to show the depth and breadth of the work required to make just one significant advance, albeit and exceptionally worthwhile one. For a half century or more, those interested in dental health have sought an effective method of prevention of caries, or tooth decay.

Conventional dentifrices, when properly used, improve oral hygiene substantially, but fall far short of eliminating tooth decay. Recognizing this as a consumer need of major proportion. Procter & Gamble undertook research more than twenty years ago to develop a truly therapeutic dentrifice that would play a double role—it would work conventionally to aid in cleaning teeth but would also provide, with no additional effort on the part of the user, substantial additional protection against dental decay.

The first seven or eight years of work were spent without finding a truly effective active ingredient. After three separate and exhaustive clinical evaluations prior to 1949, even the best candidate had failed to show a significant reduction in caries. Continued research by Procter & Gamble and by university scientists working under research grants led to the discovery that stannous fluoride yields the desired benefit when properly incorporated in a dentifrice. These few words, "properly incorporated in a dentifrice," are deceptively simple. In fact, they involved years of additional intensive work to make a formulation compatible with the special properties of stannous fluoride. This was not easy. One technical problem was that none of the conventional polishing agents then available could be used. A new calcium pyrophosphate abrasive had to be developed, along with a buffer system to ensure stability.

There were other problems too. It was recognized that a toothpaste, even though endowed with therapeutic properties, would have to be pleasant for

consumers to use in order to gain prolonged, consistent use for greatest benefit in caries prevention. Such characteristics as texture, flavour, viscosity, foam quality, and cleaning ability had to be adjusted to consumer tastes. This process of adjusting products to consumer needs and tastes is itself worthy of special discussion, for it provides for all of our products the link between technical accomplishment and successful consumer product development. I wish now to digress briefly to discuss this subject.

Our continuous efforts to accommodate consumers have taught us that their tastes and desires rapidly change. Our research efforts must therefore be kept under their close and constant influence. To do this, we use every reliable method we can find to determine and anticipate consumer needs and preferences. The company's consumer research program includes, for example, skilled interviewers who visit thousands of homemakers each year. They conduct dozens of product "blind tests," in which consumers are asked to test unidentified samples by use in their own homes. Their reactions give us guidance in relating our product objectives to their ways of using products, and to their preferences. Finally, they give us assurance that we have designed a product which meets their needs. Then, and only then, do we consider a product ready to be taken over by our marketing people. Thus it was that our anti-caries toothpaste had to be exposed repeatedly to consumer evaluation before the final product, Crest, came into being and was introduced in Canada in 1960.

Against this background of Crest development history, I want to cite some additional facts which will convey something of the magnitude of the project.

1. Over one hundred man-years were devoted to laboratory studies.
2. Over 200 inorganic fluoride salts were screened for possible use.
3. More than 7,000 people participated in clinical studies.
4. Electron microscopy, radioactive tracers, ultra-violet fluorescence, and other modern research techniques were used.
5. An advanced-design microtome was invented in Procter & Gamble laboratories to provide extremely thin sections of tooth enamel for study with the electron microscope. This invention made it possible to apply electron microscopy effectively for the first time in enamel structure studies.

Looking toward still greater advances, our research effort for Crest has never stopped although it is now the largest selling dentifrice in Canada. Clinical tests have been continued to evaluate its effectiveness over an even broader range of use conditions, and to seek out possibilities for further improvement. Lest the amount of work required for Crest's development may seem unduly burdensome, we should consider the benefits.

Our statistical data, accepted by internationally recognized dental authorities, demonstrates convincingly that Crest is today preventing a minimum of 1,800,000 new cavities per year in Canada. These cavities would otherwise have required professional repair by dentists or loss of the teeth themselves. At a conservative valuation, such professional attention would have cost Canadians at least $9 million last year.

This Crest history illustrates our established pattern of product development—define a genuine consumer need, invent an answer to that need, then incorporate the answer in a product which consumers will find both practical and appealing. The Crest story, like many others in P&G, shows that major technical advances to improve health, nutrition, or hygiene require long-term, sophisticated technical effort, sometimes in massive amounts.

A similar record could be written for other Procter & Gamble product break-throughs, from the first pure white floating soap bar, Ivory, to the first clinically-proven anti-dandruff shampoo, Head & Shoulders. In between, we

could insert the first all-vegetable shortening, Crisco; the first heavy duty synthetic detergent, Tide; a revolutionary type of cake mix, Duncan Hines, and hundreds of improvements to established products that have boosted our standard of living.

I want especially to emphasize these improvements to established brands because they are essential to the continuing existence of any high-quality consumer product. For example, we could not hope to maintain Tide as a leading brand with our original 1948 Tide nor, for that matter, with the Tide we had in 1965. That is why, since its introduction back in 1948, Tide has enjoyed 14 distinct performance improvements. These have not changed Tide's basic characteristics but they have advanced its performance and its value to the consumer in line with the growth of our technical knowledge.

COST REDUCTION AND RAW MATERIALS

Let us now turn to our work to develop domestic supplies of raw materials. There have been nine projects in as many years in which we have worked to develop a Canadian supply of a chemical or commodity, usually with an attractive reduction in delivered cost. In some of these cases the way was opened simultaneously for sales to customers other than P & G. In one case, for example, we brought to a nearby supplier the technology for improved tallow rendering. This made it possible for him to provide us with tallow of the top quality we needed, and in even greater yield than he had obtained previously on lower grades. In a parallel project, another renderer was led to qualify as an exporter of this high grade of tallow to Procter & Gamble factories outside of Canada. This kind of work is very much in our own interest, but certainly in the country's interest as well.

The field of edible oils and shortenings has been especially fertile for cost minimization. Crude edible oils have come traditionally from all over the world and have been characterized by widely fluctuating market prices. We have developed substantial freedom to shift formulations, without hurting quality, to obtain minimum costs as these world oil prices vary. Additionally, we have over the past six years learned how to use significant amounts of oil produced in Canada from rapeseed grown on Canadian farms.

Rapeseed oil became available commercially in 1960, but its use was held back because it differs importantly from oils previously used in shortenings. It contains certain unusual natural components which made normal processing techniques inadequate. It was therefore necessary to do extensive experimental work in the refining, bleaching, and hydrogenation steps to accommodate the new oil. After making the necessary process changes, trial runs had to be made in the plant to provide quantities of the finished products for exhaustive testing.

In 1964 we were finally able to use large quantities of rapeseed oil. In that year the value of the oil used was about $600,000, increasing to about $1 million last year. We look to still further increases in rapeseed oil usage as we succeed in extending its use to still more of our products.

CONCLUSION

This discussion has sought to acquaint you, through some specific examples, with the broad scope of our research and development work because this work has so significant a relationship to the value and cost of our products to the consumer. One key question this discussion has not dealt with. It has not responded to the committee's question as to the quality and value relationship that exists between our nationally-advertised brands and the chain-store private label brands. This subject is so important and the misconceptions that have been built up around it are so great, that with the committee's permission, we propose to deal with it separately at the end of the total presentation.

Mr. WILLIAMS: Honourable members, we trust that this review by Mr. Pollock will have given you some idea of the highly complex, highly technical nature of the industry in which we have the honour to play an important part.

I will now ask Mr. Baillie, our Vice-President of Manufacturing, to tell you briefly about another vitally important aspect of our total operation, our Cost Reduction and Cost Avoidance program.

Mr. J. R. Baillie, Vice-President in Charge of Manufacturing, The Procter & Gamble Company of Canada, Limited: Mr. Chairman, ladies and gentlemen, Mr. Pollock has outlined for you how our Research and Development Department develops products of the highest quality to meet the needs and demands of our customer, the housewife. We in manufacturing have one prime responsibility, to ensure that these products at all times meet the rigorous quality specifications established for them. But we have a second, and to us, equally important responsibility and that is to keep our costs down in the face of price increases of many of the basic items we use, items over which we have virtually no control —chemicals, packaging materials, transportation, labour, etc. For example, Mr. Williams referred to the fact that our wage rates had increased, just over the past 18 months, by 9 per cent.

Now, our approach to keeping down costs is quite straightforward. We systematically question everything we do, every material we use, from a cost standpoint. We need to determine precisely where and how our money is being spent and we have an elaborate cost control system for doing this. It might interest you to know, for example, that we have determined the ideal hours of labour, pounds of material, kilowatts of power required by each one of our manufacturing processes. This information enables us to set up ideal costs and to plan for highly efficient operations. Through it we know precisely how many people ideally we will require for a given volume of production; how many pounds of steam we ideally need to operate each piece of equipment. Similarly, the actual performance of each department and each manager is calculated against this ideal cost. Knowing what our operations should cost and what they do cost makes it possible for us to concentrate our efforts where they are most needed.

We maintain a staff of industrial engineers whose primary function is to aid our line managers in analyzing, investigating and then improving cost performance. We know this approach of tight operating cost control has a very significant effect on costs throughout our world-wide company. Here in Canada we estimate that this year alone our finished products' costs would have risen by at least another $3\frac{1}{2}$ percent to 4 percent if we had not had in operation the cost control system I have described.

However, important as operating cost control is, I think an even more important aspect of our approach to cost minimization is our constant search for new methods, better ways to produce these same high-quality products. We do not leave this to chance. Nor do we delegate this responsibility for finding a better method just to technical and professional people. We expect all of our management people constantly to question and challenge our current practices, our specifications, our processes and our materials. Members of management within each division, each one intensively trained in the special techniques required, are organized into cost reduction teams. Each team creates its own list of cost-reduction projects and accepts responsibility for its share of the total company cost reduction goal.

Let me give you some idea of the breadth of our attack on costs. While the examples I shall offer you are primarily in the manufacturing area where I am most knowledgeable, I would stress again that this is a corporate affair with similar activities taking place in all areas of the company.

First, we attack material costs. A simple example is the question of the design of the shipping containers in which we deliver our products to the grocer. To provide for gluing there has to be some overlap of board at the top and bottom of the container. By developing a new packing method it was possible to design a container in which this amount of overlap was substantially decreased and the total amount of container board reduced. The actual reduction was 17 per cent; and the savings resulting from this amounted to $71,000 per year.

We are also constantly working to improve the capacity and output of our production equipment. For example, over the past 15 years we have increased two-fold the through-put of our standard tower unit which produces detergent granules, and this has been achieved by carefully analyzing each component piece of equipment and then breaking critical bottlenecks. This has not only reduced operating costs but has eliminated the need for very substantial sums of otherwise unavoidable capital expenditures.

As another example, we are currently undertaking the consolidation of certain of our processing operations. This will eliminate unnecessary movement of materials; will result in more effective use of the equipment involved; and will simplify this particular production cycle. When this re-arrangement has been completed, the net result will be a $200,000 per year reduction in our costs.

The handling of materials and finished products is an important aspect of costs, and we attack this aspect diligently. Following World War 2 we rapidly adopted the then up-to-date wooden pallet and fork-lift truck method of moving material in our warehouses. We were proud of the fact that we could transport and stack 50 cases at a time. But we did not stop there. Applying the cost reduction concept I have described, we eliminated the pallet and with it the cost of pallet repair and replacement, the cost of handling the empty pallets and the cost of warehouse space to store these same pallets. The equipment to do this, which was developed by Procter & Gamble in close collaboration with a fork-lift manufacturer, is called a clamp truck. The use of these trucks in our Canadian warehouses has achieved a cost reduction of $50,000 per year. In this particular case we are making this cost reduction idea available to other interested parties, both our suppliers as well as our customers. We have made a 500-foot movie which describes this clamp truck system and this has been shown to several warehousing and grocery operating groups in Canada.

Illustrating another point, we work to make our managers more effective in their planning and scheduling. Better information systems through the application of the most modern electronic data processes have been very helpful here. Using our recently installed IBM 360/40 computer we currently have under intense study a new supply, production, warehousing and distribution system. When completed and in operation this new system will reduce our costs by an estimated additional $275,00 per year. Many other examples could be offered but they would merely be repetitive to my main point which, in summary, is this. In Procter & Gamble we recognize that we must constantly increase our productivity if we are to stay competitive in the face of accelerating cost pressures.

Mr. WILLIAMS: Ladies and gentlemen, from what Mr. Baillie has said, I think you can see that we are a very cost-conscious company. Fundamental to the success of our approach to minimizing costs is mass production. Fundamental to mass production is mass consumption. If we cannot generate mass consumption then the whole process collapses. The only effective way we know of generating mass consumption is by selling the consumer; by enabling her to try for herself the new and improved products which our Research & Development people have invented.

I would now like to ask Mr. Garrett, Director of Advertising, to discuss briefly with you how we go about doing this.

Mr. A. D. Garrett, Director of Advertising, The Procter & Gamble Company of Canada, Limited: Ladies and gentlemen, we are committed to the mass manufacture of our products. The job of advertising is to sell those products to the five million housewives throughout Canada. The success and progress of our business depends upon the ability of advertising to do this job effectively and above all economically. The markets in which we do business are highly competitive and the housewife to whom we sell is constantly looking for innovation, improvement, increased value and variety of choice. In this environment our advertising has a three-part job to do.

1. Through our advertising we must inform the housewife of the products we have available, of the value they represent to her and also persuade her to try them and to use them in preference to those of our competitors. This has to be done across the whole of Canada to both a continuing purchasing population which makes around five million buying decisions a week and also to the 200,000 new purchasers who enter the market each year.

2. Advertising, and advertising alone, can effectively bring to the attention of the housewife improvements to existing products, which have been made as a result of consumer-based research and development. These improvements increase the value of our products to the housewife and she should be made aware that better performance or convenience is available to her. The improvements also represent an investment on our part on which the demand developed by advertising will, we believe, bring us a fair return.

3. Advertising introduces the Canadian housewife to completely new products. This is our investment in the future and we will go into this in more detail in a moment. Mr. Williams has spoken of the nine new products we have successfully introduced into Canada in the last six years. Not only are we satisfied that advertising has played a major role in bringing these new products into the Canadian home—we know for absolute certainty that without advertising they could not have been successful.

Advertising, like most things, is not a cheap commodity to buy and its cost is 30 per cent greater now than it was five years ago. It is, however, by far the most effective and efficient selling medium available to us. If there were a more efficient and effective alternative we would certainly use it. If advertising is doing its job effectively it will be conspicuous and it may seem that a great deal of expenditure is involved. On the other hand, I suggest that no one in this room would consider two postcards delivered to the housewife in the course of one year to be excessive advertising expenditure for a mass consumer item which has to be available for weekly purchase throughout Canada. And yet, ladies and gentlemen, as an alternative to television, that is what the annual advertising expenditure of an average Procter & Gamble retail brand would buy. We think this demonstrates that advertising, as we use it, is relatively inexpensive.

We believe, indeed we know, that, in a market where millions of Canadian housewives are exercising their freedom to choose every single week, advertising makes a sale more frequently, with more impact and less expensively than any other method. Let me re-emphasize that if there were a better method we would use it. Yet advertising is still a cost and as such is subject to the same thorough scrutiny of efficiency, as well as of quality and effectiveness, as are all of our costs.

We take great care to see that our advertising is neither unfair nor deceptive and that it is soundly based upon the performance of the product. We and our advertising agencies do much research to establish that advertising is being seen and that it is being remembered in the way we have designed it to be remembered. If it is not, our effort is wasted and we must return to the drawing board.

As to efficiency, no cost is examined with more care than the cost of advertising media. The use of media is planned market by market, television

station by television station, to be sure that we are reaching the people we wish to reach with adequate frequency and that the way we plan to do it will be the most effective and least expensive open to us. Media plans are kept under constant review, and regular testing of different levels of expenditure and varying media structures helps to ensure that we are extracting the last ounce of efficiency from our advertising dollar.

After 50 years in business in Canada, we know that advertising properly used effectively sells our products; that it stimulates and sustains a high volume of demand, and that it thereby reduces our costs. Without it our costs and the prices of our products to the consumer would inevitably be higher. It is also a fact that advertising must, to be worth its cost, be based upon products of the highest quality. The products of our industry are of such quality and it is through advertising, and only through advertising, that the Canadian housewife is made aware of them and is given the opportunity to exercise her free choice among them.

NEW PRODUCT MARKETING

You have heard from Mr. Pollock of the complex technical and research programs which are fundamental to the creation of new and better products. The development of a new product which is tailored to an identified need is not, unfortunately, of itself a guarantee that the housewife will buy it in the quantities necessary to justify major investments of capital and marketing money. We will, indeed we must, price that product competitively but we must be sure that the housewife will see in it value to justify buying on a continuing and long-term basis.

Our answer to this is to expose the new product to the competitive forces of the marketplace in a limited area of Canada. We select an area perhaps the size of Calgary or Quebec City, sometimes larger, which will give us confidence that the results can be projected. In our business many factors enter into the choice of such an area—size, the hardness of the water, income levels, availability of media and promotion facilities, the types of retail outlet and whether the area is representative in terms of the products currently available. Into this area we will introduce our new product and market it exactly as we would plan to do nationally. We will commit money, sometimes large, to measure the results of this test market and will base our decision on capital and marketing investment upon it.

Within such a test market we must establish that the product will meet the demands of normal storage and transport. That the package we have designed has impact, attractiveness and convenience and that the advertising copy effectively conveys the value and properties of the new product. We also have the opportunity to measure the effectiveness of the promotions program in achieving trial and continued purchase of the product.

The committee has asked, among the topics suggested by Dr. James, what our policy is with regard to promotion methods such as coupons, premiums and "cents off" packs. This seems an appropriate point at which to pause for a moment to answer that question specifically. We have used, and continue to use all of these types of promotions together with others. We use them because it is our experience that, in controlled use, and properly selected on the basis of careful testing, they are highly effective in promoting trial and re-trial of our brands. This, after all, is the fundamental reason for promoting at all. The average household purchases our industry's products 50 times a year, 5,000,000 purchasing decisions are being made each week, 200,000 new households are set up each year and our products are constantly being improved—there have, as you have heard, been fourteen improvements to Tide since it was introduced. This is why we must and do use sales promotion to have our products sampled not once but regularly.

Coupons are effective in securing widespread trial of a product, and are particularly valuable in giving the housewife a low-cost opportunity to sample a new brand or an existing brand which has been improved. "Cents off" packs, properly used, are also effective in stimulating re-trial of products and increasing sales. We know this because we make it our business to measure their effectiveness on each and every occasion that we use them. From the housewife's standpoint "cents off" packs provide a temporary reduction in our price, which will be passed on to her, and which for limited periods represents an important saving. Far from increasing the cost of our products to the housewife such promotions invariably reduce it.

To return to the marketing of new products, our policy with regard to promotions is highly relevant. The promotion program, as developed for a new brand, will often cover three years and every promotional device that can legitimately promote trial and re-trial will be considered. The effectiveness of the program, in the test market of the new brand, can be and is measured in depth.

The test market of a new product gives us a vitally important opportunity to evaluate all the components of the marketing plan we have designed, and if something goes wrong we have a good chance of knowing what it was. But the really crucial thing a test market does is to answer the question—does the housewife like the product, will she buy it and will she go on buying it. Intensive and regular research into her usage of the product and her attitude to it, together with measurement of the volume and frequency of purchase gives us this answer and upon it we base our decision on the investment necessary to sell the product throughout Canada.

A successful test market confirms that we have correctly judged the potential of the product. On the other hand, test market results can sometimes warn us off. For example, we market-tested in Canada a laundry product in tablet form called Salvo, which provided greater convenience through pre-measurement. Salvo was already being successfully sold in the United States. The test market told us that the Canadian housewife did not want or was not ready for it—or that enough of them were not. We did not proceed. This in itself is clear proof that test marketing, backed by careful research, does prevent wasteful investment.

However, we believe that we hit a good deal more often than we miss, and we submit that our record of innovation is there for examination, as are its results. It has made our markets dynamic, not static and the overall consumption of soap and detergent products, for example, has, for the past ten years, been increasing at double the rate of population growth. It continues to grow at this pace and we suggest that this has to be good for Canada. As Mr. Williams has pointed out, 47 per cent of our current sales is in products that did not exist in 1956 and, in the last six years alone, we have introduced nine new products that are now firmly established as brands the housewife buys regularly and in quantity.

There is, however, still a long way to go. In Appendix 7 we have shown how the per capita consumption of cleaning products—personal, household and laundry—in Canada compares with that in the United States and the United Kingdom. The Committee will be interested and perhaps surprised to see that the per capita consumption of packaged laundry products, for example, is 73 per cent higher in the United States and 28 per cent higher in the United Kingdom than it is in Canada.

For toilet soaps the figures are 26 per cent and 12 per cent. This demonstrates a need which must be filled in the interest of the health and well-being of the Canadian home. It is our aim to fill this need with new products and with continuous improvement to our existing products.

Mr. WILLIAMS: I hope, ladies and gentlemen, that Mr. Garrett's talk may have given the committee some understanding of how we in Procter & Gamble use our marketing skills to build this all-important mass consumer demand for our products. Our marketing operation is not a hit-and-miss affair. It calls for that same painstaking thoroughness, testing and research that we like to think characterizes all of our corporate activities. Now, as the final item in our presentation we would like to have Mr. Pollock deal specifically with private label brands and particularly their value relationships to nationally-advertised brands such as our own.

Mr. POLLOCK: We state with complete confidence that the performance of the high quality nationally-distributed detergents is oustandingly superior to that of the lower-priced private label brands; and that this superiority is of great importance to consumers. Our conclusions are not based upon mere opinion, but upon objective laboratory testing of the products themselves and upon extensive work to know what housewives want and appreciate in detergents. We have examined private lable detergents exhaustively by direct in-use performance comparisons and in hundreds of chemical analyses.

Let us consider first the laundry detergents. In every important aspect of end-result performance, which after all is what housewives are really seeking, private label brands are markedly inferior—in cleaning, in removal of stains, in whitening, and in the fragrance of washed clothing. Not only is this true when she uses normal amounts of the private label products, she cannot, even is she uses twice as much, match the results of our high performance laundry brands.

We know from our consumer research that these differences in end results are readily seen by housewives and that they are important to them. I should have liked to have been able to demonstrate in laundry tests, here in this room, these important performance differences. For obvious physical reasons, this is not possible. We should be delighted, however, to have one or more of the committee members visit our research and development facilities in Hamilton. There you could see these differences demonstrated in actual home washing machine evaluation, and we urge strongly that this be done.

Before leaving laundry detergents, I want to point out that there is no mystery surrounding the performance inferiority of private label products. Their deficiencies are as obvious in their chemical analyses as in laundry end results. They do not embody the advanced formulation know-how that results from the kind of research and development work we described earlier. Every private label product we have analyzed lacks the newer ingredients used in our high-performance brands. Some lack formula balance. They have a lower percentage of basic active ingredients, i.e. they are dilute. Their performance shortcomings are entirely consistent with their technical shortcomings.

Let me turn now to liquid dishwashing detergents. There are, of course, several aspects to the performance of dishwashing detergents. Prominent among these is the mileage factor, or the amount of dishwashing that a given amount of detergent will do. This performance feature can be shown and I propose to do this right in this room with the aid of photographs. Furthermore, it is especially appropriate that we deal with mileage because of its direct relationship with dishwashing economy, a subject which has previously arisen before this committee.

In considering dishwashing detergent mileage, we must look at sudsing behaviour. Suds are rightfully regarded by most consumers as an indicator of cleaning power in dishwater. The disappearance of suds in the course of dishwashing indicates the decrease of effective detergent as it is tied up by soil from the dishes, hence the reduction in the power of the solution to wash dishes. The demonstration which I am about to describe is based upon the washing of plates

which have been soiled with typical foods. We shall show Ivory Liquid performance in a side by side comparison with a representative private label brand.

The first exhibit shows the detergents being measured to ensure the use of an equal quantity of each. Ivory Liquid is shown at the right, the private label brand at the left.

Mr. SCOTT (*Danforth*): What is the name of the private label brand?

Mr. POLLOCK: The private label brand that we have used is identical in chemical composition to two others that we have analysed and which we know are sold. Furthermore, it is typical.

Mr. SCOTT (*Danforth*): But what is it?

Mr. POLLOCK: The particular one here is Steinberg's pink liquid detergent.

Mr. SCOTT (*Danforth*): Steinberg's pink?

Mr. POLLOCK: Yes. The amount measured out is equal to one Ivory bottle capful, typical usage for a family dinner dishwashing job.

Next, exhibit 2, we see the sink filled with water, the detergent having been added to the running water just as many housewives add it. The quantity of water is exactly the same for each test, as is the temperature. I hope you can see that the initial amounts of suds are about equal for the two detergents. Each plate to be washed has been soiled with a measured amount of the food mixture.

The next exhibit, number 3, shows the suds levels after washing ten plates. The significant point here is that at this stage, Ivory Liquid has a large volume of suds remaining, while the level for the private label brand has decreased significantly.

Exhibit 4 shows that after washing 17 plates the private label brand's suds have disappeared, and no more dishes can be washed in this solution unless more detergent is added. Ivory Liquid suds are still abundant.

Exhibit 5 pictures the Ivory Liquid suds level after washing 26 plates. The suds level is still quite acceptable for continued use of the dishwater. The other photograph simply repeats the appearance of the private label solution after 17 plates, since the test of this brand was stopped with the exhaustion of its suds.

Mrs. MACINNIS: Is that still the same private label?

Mr. POLLOCK: Yes.

Mrs. MACINNIS: It is not pink any more?

Mr. POLLOCK: We have used the part of the bottle that showed when it was pouring. This was the same scene photographed at the same time.

Exhibit 6, the last, shows that after washing 35 plates the suds have been virtually exhausted for Ivory Liquid.

Again, we repeat the 17-plate appearance for the other product.

Mr. SCOTT (*Danforth*): How clean are the two sets of plates?

Mr. POLLOCK: They are both clean.

Mr. SCOTT (*Danforth*): They are both clean, so the suds did not have much to do with it?

Mr. POLLOCK: May we answer that later, and continue with the brief?

Mr. SCOTT (*Danforth*): Yes.

Mr. POLLOCK: You may be interested to know what amount of private label detergent would have been required to wash as many dishes as were washed with the capful of Ivory Liquid. In a duplicate test, we added a second capful of the private label product after the suds were gone at 17 plates, and continued washing. Even then, the job could not be completed until still another $\frac{1}{2}$ capful had been added. This means that $2\frac{1}{2}$ bottles of the private label liquid would have been required to wash the same number of dishes as could have been washed with one bottle of Ivory Liquid.

This simple but meaningful demonstration shows that, capful for capful, Ivory Liquid is far superior in mileage to the private label brands. It shows the fallacy of direct price per ounce comparisons for cleaning products. Furthermore, and we believe this is of great importance to quality brand users, the housewife knows from experience that this mileage superiority of Ivory Liquid, along with its other highly desirable characteristics, is assured for each and every bottle she buys, week after week and year after year.

The performance deficiencies of private label detergents whether for laundry or for dishwashing are significant and demonstrable. As we have shown you, price alone as a measure of true value can be utterly misleading.

Mr. WILLIAMS: Thank you, Mr. Pollock, I would like to make a couple of concluding comments on what Mr. Pollock has said which I think are germane to this fundamental issue of private label brands. I told you in my opening statement that we have no quarrel with the point of view that says there are some housewives who, in exercising their freedom of choice, like to buy on price alone and to whom top quality performance is of secondary importance. However, the fact that the housewife has this freedom to choose between price and quality must be credited to manufacturers such as ourselves; for if we had not invented synthetic detergent products in the first place then there would not be any private label synthetic detergents at all. Furthermore, when the next major technical break-through in our industry comes forward it will be we who do the inventing and not the distributor of private label brands.

I would also like specifically to comment on the role of manufacturers, such as ourselves, as competitors with those retail organizations who sell private label brands. These organizations control the distribution of products such as ours at its most sensitive point, namely, the point of sale where the housewife makes her purchasing decision. These organizations determine whether our products will be placed in distribution in their stores; how much shelf space they will be allocated and where this will be; and what supplementary in-store support, if any, they will receive. Their own brands whether purchased by them or processed by them are in direct competition with our brands at this point of sale. They control not only their own prices but the prices of our brands and of our competitors' brands as well. This fact has compelled us to devise means by which nevertheless we can compete effectively. Our basic competitive device is to appeal direct to consumers over the head of the retailer. We do this through product innovation, superior product quality, consumer advertising and consumer promotions.

It is necessary for us, and desirable, in our opinion for the economy, that these retail organizations have effective competition. For us to compete with them we must be able to use all the competitive tools available to us. If these are taken away or blunted we lose our competitive position of course; the retailer is left in sole control of the distribution process at the point of sale; and competition is seriously impaired not only price competition which already exists, but competition in product quality, innovation and response to consumer wants and needs.

Ladies and gentlemen, during this presentation—and I thank you for your great patience with us—we have tried to establish three basic things about our company. First, that our company feels a deep sense of obligation to people, not least, I may say to those people who make up our consuming public. Second, that in our view our continuing progress is directly dependent upon our ability to improve our existing products and to invent entirely new products, each one offering the housewife ever-increasing value; and to use our marketing skills to sell these products economically and in mass volume. Third, that in this vital area of providing products of ever-improving quality and value at competitively low prices our record has been an enviable one. Let me remind you. Over the past 18

months the increase in our prices to the trade of our consumer products has averaged only 1.5%.

Thank you, Mr. Basford; thank you, ladies and gentlemen.

Co-Chairman Mr. BASFORD: Thank you very much, Mr. Williams. While Mr. Williams is getting his breath, there is something I would like to say that I intended to say at the beginning of the meeting, and I want to assure Mr. Williams it has absolutely no relationship to his evidence this morning. I say it now because I notice that we have a good number of the former witnesses and competitors mentioned here.

It has been brought to my attention that some of the witnesses who have appeared before this committee have used their evidence for advertising and commercial purposes and, more recently, have run radio commercials which stated that certain facts relative to their company or their product have been proven before this committee. I do not have the text of the commercial, so I do not want to be any more specific than that.

Other witnesses have, I think quite properly and justifiably, complained to me that this is an undesirable practice, and I would agree that it is, and I think it is an abuse of the proceedings of this committee, because at this point absolutely nothing has been proven in front of the committee. A great deal of evidence has been adduced, but there is at the moment no proof, and, of course, if this practice were allowed to continue it would lead companies and witnesses who have come here quite frankly and openly to allege certain things and then go out and say they were proven before the committee.

Therefore, I do want to bring this to the committee's attention, and to the attention of the witnesses and companies that have appeared before the committee. I have not had an opportunity of reviewing the law books on the subject, but should the practice continue I certainly intend to do so in order to see whether that constitutes a breach of the privileges of parliament. I will consult also with Dr. Ollivier, the parliamentary council, and his Honour, the Speaker, because I think it is a practice that we cannot allow to continue.

The purport of my message this morning is that those who are using the proceedings of this committee for advertising purposes might well be advised to cease and desist.

Mr. SCOTT (*Danforth*): Who are they, Mr. Chairman?

Co-Chairman Mr. BASFORD: I have not the text of the material before me and, therefore, I do not wish to be any more specific than this.

Mr. Scott (*Danforth*): I know they have all been perfect at the times they have appeared, but I think we should know the names—

Co-Chairman Mr. BASFORD: It has been reported to me that certain commercials have said so and so. I have not the text of those commercials, and, therefore, I cannot guarantee what was said, and I would not want to name a company in case it did not say what was reported to me.

Mr. SCOTT (*Danforth*): Perhaps you would not mind checking and then giving the committee the names later on today, because what you have said sort of casts a shadow over them all.

Co-Chairman Mr. BASFORD: No, I simply ask the company, if it is doing this, to cease and desist.

Senator COOK: That is, if they are doing it?

Co-Chairman Mr. BASFORD: Yes.

Mr. ALLMAND: It seems to me, Mr. Chairman, that the briefs are getting longer and longer, and are being used not so much for advertising but for public relations, and as a medium for pushing products. This morning it has taken us approximately an hour and a half to go through this presentation. I know that we started a little late, but this presentation continued until five minutes to

eleven, in any case. It seems to me that if the briefs are going to take that long to present, thus leaving so much less time for questioning, and since we have scheduled other groups such as this one to appear which are probably going to make long presentations, then they might be asked to prepare a summary which can be read. This is done in other committees, such as the Transportation Committee. Companies that have very long briefs should give us a summary. Of course, if they decide to present a short brief then that is within their prerogative.

I get the impression that the briefs—not just the one we heard this morning, but many of these briefs—are being used for public relations purposes.

Mrs. MacInnis: Mr. Chairman, there is one point I should like to make. The brief was very fair but, again, I think it is unjustifiable for any firm to take this occasion to attack, as was done this morning, the private name brands. We want to hear about the firm, and not attacks on rival methods of doing things. These are things that should be watched in the future.

Co-Chairman Mr. Basford: In answer to that last comment I will say that the companies were asked to make comments on private label brands, and several of the witnesses, I think, were quite proper in making the comments they did.

Mrs. MacInnis: They were hardly comments.

Co-Chairman Mr. Basford: You can accept their comments or not, as you wish, but I do not think the witnesses should be criticized because the retail chains and those who have their own private label brands went to great lengths in their submissions to make known the merits of their particular private label brands. I do not think Procter & Gamble should be criticized for their comments this morning. You may not like those comments, but I do not think they can be criticized with respect to them. They were asked to make specific reference to private label brands. I am sure, with regard to Mr. Allmand's comments, that the witnesses have noted them.

The first name on my list is that of Mr. Scott.

Mr. Scott (*Danforth*): Mr. Williams, first of all I would like to say a word of appreciation. You are one of the few witnesses who have done us the courtesy of sending us your brief ahead of time. Most of the briefs have been landed on us like a bomb, and we have had no chance of looking at them before hand. Your sending your brief ahead of time is much appreciated.

Co-Chairman Mr. Basford: I do not think I can accept that, Mr. Scott. What you say about Procter & Gamble is true, but many other companies were asked to have their briefs in a day in advance of the hearing, and most of them did comply with that request. Of course, many could not. Dr. James tells me that most of them have complied with that request. I know that most of them have arrived at my desk ahead of time.

Mr. Scott: (*Danforth*): Then you may have a special desk, Mr. Chairman, but we have not been getting them all the time.

Mr. Williams, the general area of discussion that we took up on Tuesday with the Colgate-Palmolive Company involved not so much the quality of the product—and this you have dealt with very substantially—but the way in which the consumer meets the product and her ability to make intelligent choices. You spent a lot of time this morning, and justifiably so, on Crest. I went on another little shopping trip this morning to see how you marketed Crest, and I discovered, as in the case of Colgate-Palmolive, that there is a completely weird method of sizing. Your sizes are $1\frac{1}{2}$ ounces, $5\frac{5}{8}$ ounces and $8\frac{3}{8}$ ounces, all of which have different prices, of course. There is an in-between size and price that was not on the shelf of the supermarket I visited. I want to ask you the same question I put to Colgate on Tuesday. Is there no other way of marketing these

products. Having regard to the designations that you have on Crest I do not know who could possibly compare the values as between the 5⅝ ounce size and the 8⅜ ounce size. How in Heaven's name can any shopper be able to sit down and sensibly compare the prices of those products?

Mr. WILLIAMS: Let me answer your question by making three points, if I may, Mr. Scott. First, when Crest was introduced it was introduced, of course, into a dentifrice market that already existed. There were certain sizes of competitive products that were already packed in these sizes. I think it was not unnatural—and we ourselves were marketing a product called Gleem for which we had certain packaging equipment—it was not unnatural for us to say at that point that we would market our new product in sizes that were apparently accepted by the trade and other manufacturers as being the standard sizes, and this we did.

I know that this matter was discussed with the Colgate people, and I understand that the Colgate people said that they would go away and look at this whole question. We would be delighted to do exactly the same, if that would help.

Mr. SCOTT (*Danforth*): But you have had six years in which to look at it. You have had Crest on the market for six years.

Mr. WILLIAMS: Yes, and my answer to that, Mr. Scott, is that we do not talk to our competitors about what is a good size. We do not ask them: "What sizes do you think we ought to have?" In this case we came into a market that had been established for many, many years. We did market our product in ounces, although I think the usual unit of weight in those days was the gram. We went to ounces, and, of course, we converted the grams into the appropriate number of ounces, and that is how we wound up. Not until this committee began its hearings—and I mean this in all seriousness, because we are very sensitive to what the consumer says—did we hear this question raised, or hear that this has been a problem.

Mr. SCOTT (*Danforth*): But consumers' groups have raised this problem for years.

Mr. WILLIAMS: It may interest you to know that we get anywhere from 4,000 to 5,000 letters a year from consumers, every one of which we answer. In all of those letters I do not believe—I will be delighted to find out how many letters we have received in the past year that have complained about our use of toothpaste sizes. I am not saying that they are right; I am not suggesting that, but I am saying that it is only in very recent times indeed—and I have been in Canada now for about five years—that this whole subject has cropped up. I think the way a woman buys Crest, if I may say so, is by looking at those sizes on the shelves, and finding it not very difficult to work out which is the bargain.

Mr. SCOTT (*Danforth*): Would you work it out for me?

Mr. WILLIAMS: I can, because I happen to have it right here. If she buys the smallest size of Crest—we will call that a unit of 100.

Mr. SCOTT (*Danforth*): That is the 1½-ounce size?

Mr. WILLIAMS: Yes, that is the 1½-ounce size. We will give that a unit price of 100. If she buys the next larger size she actually pays only 92 per cent of the cost. The difference is 92 compared to 100. In other words, she saves herself 8 per cent. If she moves up to the bigger size, or what we call the family size, she actually pays only 80 per cent of the cost of the small one. Finally, if she buys the very large one—and a surprisingly large number of people do buy it, probably because they have large families—she actually pays only 68 per cent.

Mr. SCOTT (*Danforth*): But she does not know that.

Mr. WILLIAMS: Based upon the way our business is going, she jolly well does.

Mr. SCOTT (*Danforth*): You just cannot tell that from the items on the supermarket shelves. For instance, the 8⅜ ounce size costs $1.49.

Mr. WILLIAMS: I do not say she says to herself that if she buys this size she pays only 68 per cent of the cost of the smaller size, but what she does say is: "That's a hell of a bargain, and I am going to buy it". I would certainly say that from the way our family size business is growing, and the way our small size business is shrinking. I agree that she does not understand the mathematics of it, and that is why I say we will be very happy to look at it in the way the Colgate people are going to look at it. But it is a fact that these women are buying these bigger sizes; it is the whole trend of our business.

Mr. SCOTT (*Danforth*): I am still trying to make the point that when you people package this stuff there is no possible opportunity for a housewife to make an intelligent comparison, and I suggest that you have done nothing but create hopeless confusion and hope like the devil that they buy the big package.

Mr. WILLIAMS: Isn't this odd. I think this is just a fundamental difference of view between us. You make an assumption in your mind as a fact that I charge the woman only 68 per cent on our larger size per ounce of product than I do for the smaller size, that we are doing that to deceive the consumer. I am saying to you that we are passing on to the consumer great benefits from our point of view and from her point of view, she gets them in buying the bigger size. I do not see how I can be accused of confusing or being unfair to her when I tell her that she is getting 32 per cent off her dollars and cents if she moves up to our bigger size.

Mr. SCOTT (*Danforth*): Look at your Safeguard soap. You sell one brand of Safeguard—

Mr. WILLIAMS: May I see that, sir?

Mr. SCOTT (*Danforth*): I want to get it on the record first as to what it says. It is called the "Complexion" size, and sells two for 41 cents, and you sell another size, a bath size which I think is two for 53 cents. There is not a single thing on that package to indicate the size of brand, the ounces, or any thing else, and I defy you to find it.

Mr. WILLIAMS: Mr. Scott, may I answer that by saying that you have chosen for your point of view perhaps not the best example. It is utterly impossible to put any weight on a bar of soap, whether for scrubbing or washing clothes, or scrubbing or washing floors, or for toilet soaps or bath soaps, because these bars when they are fresh have a particular weight, but as they get older they inevitably lose moisture. This has been gone into very carefully by the weights and measures people of the federal Government of Canada and of the government of the United Kingdom. It is not possible to do it.

I can say on here, 5½ ounces net weight when packed, and that will be correct. In fact, it will be more than correct. I mark on my king size Tide package 80 ounces, and we pack 82 ounces, and I mark 42 ounces on the middle size, and we pack 44 ounces, and I could mark 20 ounces on my smaller size, and we pack 21 ounces. And we can guarantee on a detergent which is protected by a good solid container that those weights will be valid when the consumer buys them, but nothing on earth can stop moisture loss by a bar soap, and no scientist on earth has been able to do it yet.

Mr. SCOTT (*Danforth*): I grant your difficulty, but wouldn't it be better to put it on than to put nothing at all?

Mr. WILLIAMS: If we did this, if we put on a weight—you have not chosen the best example from your point of view, Mr. Scott, and I am trying to help you. It is totally impossible to mark any weight. If that bar was sitting in a very, very hot place on a supermarket shelf—and this actually happens—it could get lost

for 18 months or perhaps a year and if we packed that at 3¼ ounces it might become reduced to 2.6 ounces, and yet she is getting exactly the same soap content but the moisture has been lost. But it has to be there in the first place or the bar would crumble and become dust.

Mr. SCOTT (*Danforth*): I am not saying that; but what amazes me is that you can do anything but devise ways to let the consumer know what is going on. What is wrong with putting on the bar some basis of comparison so that the consumer can buy intelligently?

Mr. WILLIAMS: I can only say that I just know if I were a consumer it would be wonderful if this bar of soap never changed its weight. I do not know what you would say if I said, "5½ ounces when packed", and later you found it was 4¾ ounces. Wouldn't you be deceived? It could not be done. I cannot stop water evaporating, it just cannot be done. The federal Government is going through this whole thing with every soap manufacturer, and so are others throughout the world, including the United States. I have been involved in the United Kingdom with this, and we all agree that there is no answer. For example, with an 80 ounce king size Tide, I defy anyone in Ottawa to get 80 ounces, you will get more, and on an average 82.

Mr. SCOTT (*Danforth*): I cannot see any reason why you cannot devise some method of marking a product so that the people who buy them can make some intelligent judgment between the various prices. Take your detergents. Oxydol is one. Why is it not possible to package those in units so that housewives can make an intelligent comparison of the different sizes, not with your opponents, because you mark them in roughly the same quantities, but between the sizes of your products?

Mr. WILLIAMS: I will answer you on Oxydol. At one time, some years ago, Oxydol was converted from a soap, when finally the soap business was disappearing in Canada, into a synthetic detergent, packed exactly the same weight. However, we decided in response to a great consumer demand, because a lot of people use hypochlorite bleach, but a lot of people, not all, do not like bleaches. However, we found that some women would like to have a bleach built into the detergent, and then they didn't have to take the risk, because sometimes there is a risk attached to bleach. So we put bleach into Oxydol. We could very easily have taken out some of the existing Oxydol product and just substituted the bleach for it. But we did not do that, we put the bleach in on top of it, and Oxydol therefore does contain more product. It has as much of the basic detergent, and on top of that the extra ingredients. I do not think we are deceiving her by doing that. It is marked 83, is it not, Oxydol?

Mr. SCOTT (*Danforth*): You sell 5 pounds 3½ ounces for 83 cents.

Mr. WILLIAMS: Our basic weight on Tide, Cheer and Bold is 80 ounces, but Oxydol contains ingredients additional to the others and they raise the weight. We had the easy alternative to substitute, and we didn't do it.

Mr. SCOTT (*Danforth*): I think you are missing my point. I mentioned Oxydol. These are the complaints we members of Parliament are getting from housewives. They write and say that you have one pound five ounces, and two pounds twelve ounces, and so on, and there is no way they can adequately sit down and make a comparison between the different products. Is it not possible to mark your product so that the housewife can make an intelligent comparison. This is what creates the situation.

Mr. WILLIAMS: We also have a problem, too. As you know, you talked on the subject with General Foods. What we are trying to do—

Mr. SCOTT (*Danforth*): This is the same product.

Mr. WILLIAMS: I am sorry, you are not talking about different weights of the same size?

Mr. Scott (*Danforth*): I am speaking about your own products.

Mr. Williams: From our point of view, frankly, if tomorrow we said, "Let's make it one pound, three pounds," I don't know how many millions of dollars it would involve. We have packing machinery to accommodate certain sizes. We try to put into those packages what look like sensible values. Here again, I would like to make two points about this. I said, I was not sneering or being cynical, or trying to curry favour with the housewife, that she is a keen and very discriminating buyer, but if your wife buys 20-ounce, our smallest size, let us say, the cost is 100 units. If she buys the middle size, 12's, as we call it, she pays on a per ounce basis 92, and she saves 8 per cent. If she buys the larger size she pays 85 per cent as much.

Again, Mr. Scott, it is strange to me if these ladies are so confused. We used to have about 70 per cent of our business in the 24's size. Let me tell you today it is about 23 percent and the trend is a strong one to the middle sizes and large sizes. That is partly convenience. I know perfectly well what my wife does, she buys the big ones, and I bet your wife does the same.

Mr. Scott (*Danforth*): I think they buy that in the hope that it is the best, without having any indication that it is the best buy.

Mr. Williams: I can assure you it is.

Mr. Scott (*Danforth*): I wish you would do it on your packages.

Mr. Allmand: If the federal Government, through a consumer's agency of some kind, decided to regulate sizes of detergents and soaps, that they be put in sizes of straight ounces that would be easily calculated—such as they regulate sizes now with fruits and vegetables—would you as a company object very much to this—because all companies would be obliged to do this?

Mr. Williams: Can I understand the question correctly? Are you saying standard size of packages, or are you saying standard weights within the packages? There is a tremendous difference.

Mr. Allmand: The question would be more directed to regulating weight or sizes in order to help the consumer. I do not know yet. If such a proposal were made, I do not know the specific provisions, but my question is, would you object to regulations which, in the opinion of the agency, if there were such an agency, would help the housewife make the calculations which Mr. Scott speaks of—in other words, simplify it for the housewife? I do not know how they would do it. Perhaps they would try to eliminate fractions, and avoid too many sizes and so forth. They do this already with fruits and vegetables.

Mr. Smith: If that were extended from fruits and vegetables to other products?

Mr. Williams: I have to answer that I don't think I can say, and in saying that please do not think I am being evasive, because I am not. It would depend enormously on what kind of regulations they are. I do not mean, how legislative they were. We have to look sympathetically at anything of that kind, but until you can define just what it is, I could not possibly give a yes or no answer. May I give you an example of what I am talking about? Here are two boxes, one containing Ivory Snow and the other containing Bold. I did not bring these: I found them here. These boxes are identical in size. You have to consider the cost of the packaging machine. If we had to have a special one it would cost many hundreds of thousands of dollars.

Now, this box of Bold contains 80 ounces; the other box, containing Ivory Snow, contains 4 pounds or 64 ounces.

Those two boxes are the same size from the housewife's point of view but in the case of Ivory Snow we can get in 64 ounces and in the case of Bold we can get in 80 ounces. If you said, we want Bold to be 4 pounds and Ivory Snow to be 4 pounds; or alternatively, if you said we want a box of Ivory Snow to

contain 5 pounds and we want a box of Bold to contain 5 pounds, it would mean investing hundreds of thousands of dollars in new packaging machines and so on. I think I might say that the result would be that Ivory Snow would disappear off the market. I would not be interested.

Mr. ALLMAND: We would not want to do things which would increase the cost; but with the same product I think you could eliminate fractions without changing the size of the box. I have seen one box with 2 pounds 2 ounces. It may be you could take off the 2 ounces and just have boxes with one pound, two pounds, four pounds, and still fit in the same size boxes. You always leave a bit of air. Mr. Scott found a package yesterday where it settled down to leave one-third air. I am sure you would have enough room within the sizes of boxes already, to eliminate fractions and one or two ounces. Do you think that would be financially feasible?

Mr. WILLIAMS: We will look at anything of that kind, of course we will; we have a real responsibility as manufacturers. But the question of cost comes in. You would not want to do anything to raise costs, nor would we.

Mr. ALLMAND: Not if it is going to increase the price.

Mr. WILLIAMS: So it is a matter that whoever is responsible for this ought to produce it and then let us—who, after all, are the people who have to do it—let us look at it. I think you would find it extremely difficult but who am I to say to the federal Government "We will not listen"? We are listening all the time.

Mr. ALLMAND: It would be difficult, for example, in those two packages you showed me, to compare the weight, because of density. It would be very difficult to get the same kind of weight in both packages for both products. However, within the same line, I cannot see why it would be difficult to eliminate fractions. First of all, it means you put a little more or a little less in and you eliminate the odd numbers and just have an even price. I notice that you have here in one product, Spic and Span, sizes 4 pounds 6½ ounces; 2 pounds 8 ounces; 1 pound 3½ ounces. Those are in the same product range.

Mr. WILLIAMS: I am damned if I know about that one myself, as to where the half ounce came in there. I do not know. However, could I say again, as it is really a fairly fundamental fact—that on Spic and Span I think of them as eights, twelves and twenty-fours—that is what goes into a case. It is interesting that twenty-fours used to be our largest seller by a long way. Again taking its index as 100, you buy the 12's, or your wife buys them, at 95 per cent and down to 87 per cent for the largest size.

Mr. ALLMAND: I do not disagree with that.

Mr. WILLIAMS: You do not disagree.

Mr. ALLMAND: It is just a case of fractions and odd sizes.

Mr. SCOTT (*Danforth*): Would you give the same undertaking as Colgate gave, that you would undertake a feasibility study and let us have the results?

Mr. WILLIAMS: Mr. Scott, we will be delighted to do that.

Mr. ALLMAND: What would be the objection to putting on the package the price per ounce to the trade, so that the housewife would at least know what the price per ounce was when it was sold to the retailer and could compare it with other products in the same range.

Mr. WILLIAMS: I am thinking of the confusion, if we put our trade price on.

Mr. JOYAL: Mr. Allmand was asking if you could put on the package the price you are charging to the retailer.

Mr. ALLMAND: You say 15 cents on some packages.

Mr. WILLIAMS: We put "15 cents off".

Mr. ALLMAND: Recently there was a manufacturer here of A.B.C., and they had the exact price on one of their products, A.B.C. and they said it maintained the price level. I am wondering if there would be any objection to putting the price per ounce to the trade on all your packages. It would not be large.

Mr. WILLIAMS: It would be a tremendous job. I am sure you know very well that the prices charged to different classes of the trade depend on the size of the purchase. A large association like Loebs would buy at our best terms, per carload. On the other hand, an independent grocer might buy at the 10-case price. Again, many retailers do not buy direct from us. We may take the order and the order may be shipped by their wholesaler, and the wholesaler sells in relation to the price at which he buys. He may buy from us at the carload and sell to the retailer in 25-case lots.

I know that General Foods have said—and this was quite interesting from my point of view and it surprised me—that they have a standard price for all products to all their trade, no matter how large or how small the order. That is not true in the soap industry, and I would not think it is so in many other industries.

Mr. ALLMAND: What is the use of "15 cents off" if you sell at different prices to different retailers or wholesalers? You write that on the package.

Mr. WILLIAMS: Yes, we write it on the package. I may sell the product to you at the 10-case price. Let us say that you are a medium size independent. You will have a normal price, for example, for your Tide, king size. You may be charging $1.85. That is your regular price and your customers know that when they buy king size Tide from Mr. Allmand's store they will pay $1.85 for it. We send you a case of 15 cents off packs and we charge you your normal price. That is, we charge you on your 10-case order less 15 cents a package. We give you the full reduction of 15 cents per package. At this point you are able to say, while you have that in stock, "My price is no longer $1.85, it is $1.70 so long as this lasts." And we pay for it, of course, because we give you the complete reduction.

On the other hand, the chain store down the street, or the store out in the country, might be selling the same product, because his costs are not as high as yours, for $1.79. If he gets 15 cents off and passes that to the consumer—and he usually does—then he sells it for $1.64.

Now, I do not know what price is going to be put on all these different packages, because sometimes they are bought through jobbers and sometimes they are distributed direct from headquarters and the ultimate price at the retailers will differ from store to store.

Mr. ALLMAND: That is all on that point. I have another question, though. You demonstrated this morning that some products have better values within them than others, and that they are therefore better products. You said that, definitely. Now, within other products such as fruits and vegetables there are gradings. In other words, they have fancy quality, choice quality and so on.

Mr. WILLIAMS: Certainly.

Mr. ALLMAND: What would be the reaction of your company, if there were a consumers' agency within the federal Government which graded in some way or other soap products so that the consumer would know and have a general idea that, for example, your product will for the same ounce or two ounces do 35 plates while another product will do only 17, and so on. Such an agency could consider other matters as well and they could distribute this information either via the package or through bulletins and so forth.

Mr. WILLIAMS: I have no objection to the consumers' associations testing our products, providing they can do so. Frankly, the test is not very simple. Mr. Pollock went through this this morning and, as you know, we go through this tremendous product testing all the time. It goes back to the consumer. Is this

something she wants? When we decide it is something she wants and that there are enough consumers who want it, then we know that the majority like this product as against others that we are testing, which are usually products on the market already, of course.

When we test a product, it is in the hope of finding consumers in sufficient numbers to make it worthwhile to expand our facilities and to enable us to sell the product and to enable them to buy it. That is the test. If I offer a woman a package of Cheer and she does not like Cheer but finds that she prefers to buy—on occasion—our competitor's Omo, if she prefers to do that, nothing on earth is going to stop her, unless I go out and find out why she prefers Omo to Cheer and then make my Cheer better than Omo.

Mr. ALLMAND: What would your reaction be if the federal Government had a grading system set up in consultation with the trade, so that products were graded A, B, C and D in descending order, just the way food products are graded according to fancy, choice and so forth? They have to decide on certain criteria to judge vegetables, for instance. Perhaps they could do the same thing with products such as yours?

Mr. WILLIAMS: Mr. Allmand, I wish them luck with the problem. I can go into Loblaws and, even with my untutored eye, I can tell the difference between big oranges and little oranges.

Mr. ALLMAND: I am referring to canned vegetables.

Mr. WILLIAMS: But you are dealing with a commodity, not with one of these terribly sophisticated products.

Mr. ALLMAND: You may be right; I do not know.

Mr. WILLIAMS: Frankly, I do not think it can be done. I really do not. That is why we are such a consumer oriented business. The consumers grade our products and that grading is reflected in the market share we get.

Mr. ALLMAND: With respect to the bars of soap, you said you could not weigh them. You could not give weights for them because of the loss of moisture. Can you sell them according to volume? I presume you must do that now. You must have machines which cut the soap into certain volume sizes. Is that not right?

Mr. WILLIAMS: Yes, we do.

Mr. ALLMAND: Can you mark the volume on the package? In other words, can you do that on some of the products that are already being sold?

Mr. WILLIAMS: Would you pass that sample up to me, please? I think that is a wonderful example.

An hon. MEMBER: You had better get on record that that is a Lever Brothers product.

Mr. WILLIAMS: I do not know how you would measure this bar of soap. Now, here is a bar of Safeguard. We have a special, fancy opening which I can never seem to find. Now, comparing the two bars of soap, you can see that the problem is how to measure them? With a loss of moisture, the volume goes down, of course.

Mr. ALLMAND: These shapes and sizes are a result of consumer research, are they?

Mr. WILLIAMS: I am sure that this is, (indicating bar of soap) and I know that this is (indicating bar of Safeguard).

Mr. SCOTT *(Danforth)*: There seems to be a lot of free advertising going on.

Mr. ALLMAND: You say that the larger sizes give better bargains.

Mr. WILLIAMS: Yes, they do, indeed.

Mr. ALLMAND: Do they deteriorate over a period of time?

Mr. WILLIAMS: No, they do not.

Mr. ALLMAND: That is all for now, Mr. Chairman.

Senator CARTER: Mr. Chairman, I would just like to follow up on one or two questions that Mr. Allmand asked about this problem of sizes. Would there be a possibility of determining some cleaning unit? I think that is what the housewife, after all, is interested in. The illustrations you have given us show the cleaning power of one product versus another. Would it not be possible to define a unit of cleaning power? Then it would not matter what size package you used.

Mr. WILLIAMS: I will let Mr. Pollock answer that question.

Mr. POLLOCK: First let me say that, in our research and development work if we had such a cleancut system for grading our efforts, we would be very happy to use it. We do not have such a system which will apply, as Mr. Williams mentioned, across the extremely broad range of variables which any of our products will find in actual consumer use. What we must do in a situation of this sort is devise, for our initial guidance and laboratory work, techniques which give us a basis for evaluation. We try to take a fairly average basis, or one which would affect a number of people. However, we do not rely solely on those techniques to decide that we have really made an improvement which consumers across the broad range will find acceptable or desirable. But, we go out to consumers and do research in order to test our improvements under actual conditions, which, unlike this test I showed you this morning, are not standardized to be reproducible and to show rather quickly the performance differences, but will, nevertheless, give us the assurance that the consumers see what we think they should see. Further, we go into the actual market then, not on a national basis but on a test market basis, to test the sale of the product.

Now, to come back to the question, we can develop a method for depicting the difference in mileages between these two grossly different products, but it would be misleading for me to say that the housewives across Canada, each and every one of them, would find exactly the magnitude of difference we show here. Under conditions of different water temperature, different water hardness, different volumes of water, different kinds of soil, different manual practice in the way dishes are cleaned, there will be variations. What I have tried to illustrate here is the gross disparity between these two products which will show up under any condition of use. It will not apply when trying to fix something on an absolutely numerical scale.

Mr. WILLIAMS: Senator Carter, I think what you have in mind, and this point has been raised before, is this: could you take two packages of detergent and determine that one package will wash 75 shirts while the other will only wash 25 shirts.

Senator CARTER: I had something along that line in mind, but, just coming back to one point Mr. Pollock raised, surely the water temperature should not make too much difference, because housewives across the country use pretty well the same temperature of water. The water may be hard, soft or medium, but surely there must be some way of determining a cleaning unit that would be standard for everybody.

Mr. WILLIAMS: Forgive me, but this is our business, so I suppose we ought to know something about it. This is not actually true, you know. For example, I suspect that one of the reasons why Oxydol, with its built-in bleach, is a smallish brand in our line—it is important, but it is small—is because it has a bleach which is called a perborate bleach, as distinct from hypochlorite bleach which you buy in bottles and which will operate at any temperature, either in cold or in hot water. The perborate bleach only operates at high temperatures; and when I say "high temperatures" I mean of the 170 degrees-plus variety. An enormous number of women, either because they do not have the facilities to get water that

hot or because they do not want to use water that hot, do not get the full benefit of the perborate bleach in Oxydol. Other women, on the other hand, do use temperatures of that extreme nature and do get the benefit. I am not thinking of individual water temperature variations from day to day in the ordinary household, but the range of washing temperatures goes as low as 120 degrees and up to even 175 degrees; that is a huge difference. If you get a chap who works in a steel works, as distinct from a white-collar worker working in an office, the housewife has a totally different job to do in washing his shirts, with all the sweat and grime, as against what she has to do when washing my shirts. Conditions vary so much. I tried to spell out some of these differences. Even the same women doing apparently the same amount of washing, the washing could be quite different whether she is doing kids' dirty overalls or washing her husband's shirts.

Senator CARTER: If a national scientific research board carried out an experiment and determined that to wash, say, 20 dishes it required a certain amount of cleaning power, and said that is the unit of cleaning power when the temperature is 120 degrees, say, and everybody would have to put on their packages just how many units were in the package, would not that take care of the problem? It would not create the problem you have of having to change sizes.

Mr. WILLIAMS: Yes, it would be very difficult. In fact, it would be impossible because I do not know what I would do for the woman who washes at a high temperature. I do not know what I would do when she is washing lightly soiled dishes today, that had held a salad and cold meat meal, when she still has the same number of plates, and tomorrow, when—

Senator CARTER: She is not interested so much in that, but if somebody has laid down this unit and you have measured what is in your package in terms of that unit, you could say, "This package contains 1,000 units."

Mr. WILLIAMS: Oh yes, if somebody defined the unit.

Senator CARTER: If a national research board did.

Mr. WILLIAMS: Yes.

Senator CARTER: You would have to put the number of units on your package, and every other processor would have to put the number of units on theirs, and the housewife would then see that the private label brand would probably have only 500 units—or less than that, according to your illustrations $2\frac{1}{2}$ times less—and what we want is some way in which the housewife can compare the value she is getting for her money, which is sometimes camouflaged by size of package and by the odd number of ounces and grams that she has to search to find.

Mr. WILLIAMS: Obviously, if some national research board of the kind you speak of can come up with that—and it is something, I must say, that we, with the experience we have, have certainly failed to come up with—but if it is possible, we have to look at it and will be glad to do so.

Senator CARTER: Take toothpaste—

Co-Chairman Mr. BASFORD: Senator Carter, before we leave soap, I wonder if I could ask a question?

Senator CARTER: Certainly, Mr. Chairman.

Co-Chairman Mr. BASFORD: I have got lost in suds, I am afraid, because Mr. Beeson assured us on Tuesday—and I quote his exact words: "They have absolutely nothing to do with cleaning ability, as you know." And yet this test has been based simply on suds.

Mr. WILLIAMS: I have to say I do not agree with Mr. Beeson.

Senator McDONALD: Excuse me, but are we not talking about two different things? He was talking about suds in washing machines, and we are talking about suds for washing dishes. Is there a difference between suds in washing machines and suds to wash dishes in a basin? Or am I right in saying that he was not talking about washing dishes?

Co-Chairman Mr. BASFORD: I think that he was mainly dealing with laundry, but I took it that the comments were general, that suds had nothing to do with it.

Mrs. MACINNIS: The man who showed the demonstration said the dishes were equally clean.

Mr. WILLIAMS: Yes, they were.

Co-Chairman Mr. BASFORD: But 17 plates were equally clean with 35, was what he said.

Mr. WILLIAMS: Yes. The private label detergent washed the plates clean; it washed the 17 plates just as well as Liquid Ivory washed its plates, except the difference was 35 to 17.

Co-Chairman Mr. BASFORD: The difference was the suds disappeared at 17 and 35, but our former evidence was that the suds do not make any difference.

Mr. WILLIAMS: I do not think Mr. Pollock should be saddled with saying the suds themselves make a difference. We are saying that as an indicator of the residual cleaning power in the dishwater those suds indicate, if you have suds left, that you still have cleaning power left in the dishwater.

Mrs. MACINNIS: So they are related?

Mr. WILLIAMS: One is evidence of the other, very clearly—very clearly indeed. In exactly the same way, if you use a wringer washing machine and you have Tide in there and you get to the point where there are no suds left on top of that water, you are quite right to add additional detergent because when that water becomes completely free of suds you should.

Mind you, there is another category of product which is what we call the front-loading automatic specialty products which we call Dash, and our competitors have All. That is totally different. That is not because the suds have been put into these other products, but because we have taken the suds out of the low sudsing detergents. We actually put, at substantial cost, what we call suds suppressors into Dash, and I am sure Mr. Lockwood's company puts them in All. If you happen to have a front-loading automatic you cannot use the wrong type of detergent because of the fact that the suds inherent in the detergent gum up the machine.

So, the manufacturer was faced with that problem when front-loading machines became popular, and we constructed special products to take care of that. The fact they do not contain suds is because we have taken the suds out. The fact these do contain suds is an indicator of the cleaning power they have. This is just as true in laundry as in dishwashing—when the suds of the high suds detergent disappear the housewife knows, and we know, that the cleaning power of that solution has got to a point where she has to add more product.

Mr. SCOTT (*Danforth*): By way of a supplementary, that is not what we took out of Mr. Beeson's evidence yesterday. My impression was—and I would be glad to be corrected if I am wrong—that the only reason you put sudsing quality in your detergent is that you cannot convince the housewife it has nothing to do with cleaning power and, therefore, they are just put in, although they have no particular value at all—you stick them in because the housewives think suds mean something about cleaning.

Mr. WILLIAMS: I was not here, Mr. Scott. I can only say that we would be fools, in my opinion, to spend a lot of money putting suds into one product and a lot more money taking the same suds out of another product.

Mr. SCOTT (*Danforth*): That may well be.

Mr. WILLIAMS: When you make a synthetic detergent, by its very nature—we do not put suds out on the rivers for nothing; we do not do that for no purpose. Suds are an inherent part of the behaviour of the formulation to give the housewife what she wants.

Mr. O'KEEFE: Maybe you are confusing suds with foam. I understand foam has nothing to do with cleaning power.

Co-Chairman Mr. BASFORD: We are talking about suds.

Mr. WILLIAMS: I am saying that in a high sudsing product like Tide in the dry field, or Liquid Ivory in the liquid field, foam and suds are the clearest indicator to us and the consumer that there is cleaning power in the solution. The suds by themselves do not do anything.

Mr. O'KEEFE: When you say "suds," do you mean "foam"?

Mr. WILLIAMS: I mean that (pointing to the demonstration photographs.) Well "that" has gone off the board—the stuff that was there.

Co-Chairman Mr. BASFORD: I think we have a flat contradiction here.

Mr. WILLIAMS: Yes, we do.

Senator CARTER: To come back to this problem of quantity in respect of toothpaste, a small tube of toothpaste will give so many brushfuls. Could you not also put on the package the number of brushfuls, in hundreds or thousands or whatever it is? What I mean is that a unit could be devised by someone in those terms that would not be concerned with the size or the weight of the tube? After all, that is all we want to know—how far it will go.

Mr. WILLIAMS: How would you handle this—

Senator CARTER: I do not know that I have seen it on a package, but I have seen the length of the ribbon mentioned in advertisements.

Mr. WILLIAMS: We can measure the ribbon, of course, but then there would be arguments as to how thick a ribbon it is, and manufacturers would say that their ribbon is thicker than that of other manufacturers. Just imagine this problem. You and I do not use toothpaste on the basis of inches, or what have you, of length. You may use a Tek toothbrush which has a very small head, and you use just as much toothpaste as you feel you need to clean your teeth. A child, if he is economical, will use a moderate amount of toothpaste, but a sloppy child will use much more. You get toothbrushes this long, and others that are that long. I do not know how you could do it, Senator Carter.

Senator CARTER: Somebody will have to define a unit. I do not know why units cannot be defined. However, I will leave that.

What is your best selling product in dollar terms? Which of your products accounts for the greatest number of dollars?

Mr. WILLIAMS: Our biggest selling product is Tide.

Senator CARTER: Which product is the most profitable?

Mr. WILLIAMS: Tide is our biggest selling product by a long way, and it therefore earns the most dollars.

Senator CARTER: Can you give us any figures to show how it compares with the others?

Mr. WILLIAMS: No, I cannot, because we made up all of our figures on the basis of these product category groups. I do not have individual product figures with me.

Senator CARTER: What percentage do your toothpaste sales represent of your volume of sales?

Mr. WILLIAMS: This would have to be a guess.

Senator CARTER: Well, do you manufacture any other toothpaste besides Crest?

Mr. WILLIAMS: Yes, we manufacture one brand called Gleem, but I am afraid it is not a very significant factor in this market.

Senator CARTER: You have made a specific point in your brief about saving 1,800,000 cavities.

Mr. WILLIAMS: Yes, 1,800,000.

Senator CARTER: And you say that that represents $9 million of savings. How can you be so specific?

Mr. WILLIAMS: I will ask Mr. Pollock to answer that because this is based on statistical data, and I am not a statistician so I cannot tell you. It is based on statistical data and worked out by people who are certainly very good statisticians.

Co-Chairman Mr. BASFORD: I do not know if you realize what you are asking, Senator Carter. What you are really asking for is a commercial. I do not know whether you wish to pursue the question.

Senator CARTER: What I want to get at is: How can you be sure that this has saved so many cavities when there are so many other factors that enter into it. For instance, people are fluoridating their water now. If what you say about Crest is true then I see no need for the fluoridation of water. A person can get rid of all his cavities without drinking fluoridated water.

Some MEMBERS: Oh.

Senator CARTER: Can you be sure that the fluoridation of water has not had an effect in respect of reducing cavities?

Mr. POLLOCK: We know it by experiencing more than 20 years of testing, and now with more than 10 years of testing of this specific formulation. We have tens of thousands of people who have participated in clinical studies over a broad range of living environments. We have, therefore, a sufficient mass of statistical information from people to know exactly what are the variables which would confuse the picture. This is not the same as taking the people in this room and running a two-year study on them. All of this data has been scrutinized in as thorough a manner as any set of data ever collected, and the conclusion is that across the broad range of population Crest effects a 32 per cent reduction in dental decay.

Now, from there it is a simple matter, knowing how many people in Canada are using Crest, and then applying it and getting the mathematical figure we came out with.

I think what you are driving at, Senator Carter, is for me to tell you that we have had a sufficient base in respect of the number of people using the product in order to make the statement that we do make. We can state that most emphatically, and can state also that it is accepted not only by the experts in our own company but by the dental profession on this continent wherever there is a voice to speak for them.

Senator CARTER: Is that related to only the age groups that include children?

Mr. POLLOCK: It is applied to all age groups. Some of our tests show a figure of as high as a 75 per cent reduction, and this of course, would be among the early age groups. Some figures show a reduction of as little as 19 and 20 per cent. So, we have taken all age groups, but this figure of a reduction of $\frac{1}{3}$ is the sum total for the total population.

Mr. ALLMAND: Your product has been in existence for almost the same time that fluoridation of water has. How can you say your figure of 32 per cent is valid when so many cities now have fluoridation of their water supplies.

Mr. POLLOCK: Because we have conducted these evaluations up to the present time, and we are, in fact, still continuing them.

Mr. ALLMAND: But your figures with respect to the total population are estimates projected from controlled tests; is not that correct?

Mr. POLLOCK: As are all figures based on clinical evidence, yes, sir.

Mr. ALLMAND: But in projecting those percentages have you taken into consideration the fact that many cities now fluoridate their water supplies?

Mr. POLLOCK: Yes, we have, and this is the reason for continuing, even with an established product, this kind of performance testing, which will take into account any changes that may occur. We keep on feeding the information in. I do not say that this necessarily predicts what will be the case five years from now, but we are certain that it has given us an accurate picture of what is taking place today.

Co-Chairman Mr. BASFORD: I wonder if we could move on now to another subject.

Senator CARTER: I have one last question. While you have been concerned about cavities in teeth, you have also expanded your sales of cake mix.

Mr. WILLIAMS: I would remind you, Senator Carter, that we did them both simultaneously.

A MEMBER OF THE COMMITTEE: That is the way they encourage the use of more toothpaste.

Senator CARTER: Yes, you have got a good thing going there.

Co-Chairman Mr. BASFORD: Mrs. MacInnis?

Mrs. MACINNIS: I would like to finish off with another word about these markings of sizes on packages of soap. It is true that the packages of detergents are marked with the weight. It is true also that this is not marked with the weight. I realize that this—

Mr. SMITH: What do you mean by "this" Mrs. MacInnis. "This" means nothing on the record.

Mrs. MACINNIS: I am referring to this bar of soap.

Mr. SMITH: Safeguard?

Mrs. MACINNIS: Yes, Safeguard. Would it not be possible—I want to say definitely now that a housewife is not a computer, particularly when she is in a supermarket with three or four active children and a shopping basket to look after. I think you have to look at the thing straight on from the interests of the consumer, and there has to be a definite marking on the package in easily multipliable ounces or pounds. Has there been any consideration given in respect to your various advertisements to educating the consumer at least to the point —could you not say that soap and soap products shrink with time; that they lose weight with time. Women would be quite susceptible to understanding that, in my opinion. Do you not think you could mark this thing in the same way as you do a package of soap flakes, and say that it weighed so much when it left your factory, but these things shrink with time, and point out to the consumer that when she buys it she may find it contains less than what is marked on the package? Would it not be possible to do that?

Co-Chairman Mr. BASFORD: Mrs. MacInnis, I really think Mr. Scott explored that point, and received an answer.

Mrs. MACINNIS: I want an answer from Mr. Williams as to whether there has been any attempt to do this in advertising—by consumer education, and putting this up to the women.

Mr. WILLIAMS: Not that I am aware of by experience, but women do understand without being told, of course. But these things do lose weight. I do not know, Mrs. MacInnis, how that would help them very much.

Mrs. MACINNIS: Well, simply because there would be a weight marked on the soap the same as the detergent when it leaves your factory.

Mr. WILLIAMS: I do not want to pretend that I am Ph.D. in chemistry, because I am not, but that would be terrible misrepresentation, you know.

Mrs. MACINNIS: Why would it not be so if it were on here?

Mr. WILLIAMS: Because products like detergents do not lose weight, with the protective package around them. Safeguard happens to be a bar which is surprisingly good at holding its moisture content. On the other hand, there are other types of bars that start off with a much higher moisture content, and you might get one bar weighing five ounces at the packing line, and another brand, a differently formulated brand, weighing five ounces, which might go down to four and a half ounces, and another to four and a quarter ounces; and if there is a time difference, with one being on the shelf for a year and a half, and another for three months, all you can tell the woman is that this is marked five and a half ounces, but it ain't what you are going to get, and please be happy with what you have.

Mrs. MACINNIS: No, I think that a woman would understand—that she is not happy in getting an unmarked package now, and I feel sure that to have a package marked would be a much better thing.

Having said that, I will go on to something else, keeping in mind the caution of the Chairman, and the fact that he is looking at his watch. I am a Tide user and have been since 1950, for the reason that it is a good quality product and there have not been price changes sufficient to make me change to another product.

Co-Chairman Mr. BASFORD: Mrs. MacInnis, we have prevented the witness from giving a commercial.

Mrs. MACINNIS: That is why I want to get my innings in now. But having said this, you have mentioned that Cheer has had four changes, and Tide fourteen changes. I want to ask, do those changes warrant all the advertising and everything else which is lavished on them? Is there a point where this advertising adds to costs greater than it warrants benefits to the consumer?

Mr. WILLIAMS: Mrs. MacInnis, we have tried very hard in our brief, in our presentation this morning, to say to you that advertising and sales promotion do not add to our costs. You are very familiar with the rise in the price index. One of the basic reasons we have been able to control our costs and to keep our prices down has been the very large volume of business we do. Do you think we like declining profits? I am the president of the company, and I do not like to see our profit figures going down from $4.3 million to $3.1 million. I would be delighted, of course, if I felt that I could reduce my costs in any direction, including my advertising costs; but I know this, that we have tested low levels of advertising and promotion on some of our brands, and we are doing it all the time to make sure the level of our spending is the level at which we get a fair return on the investment.

Now, I have never yet met a case where Procter and Gamble has tested a lower level of advertising, found it succeeded, and failed to adopt it. We are doing this all the time. The level of spending we have for our brands is designed to be the least we can get away with.

Mrs. MACINNIS: The point is that prices are going up on all the elements going into the making of these products for the consumer. Are you going to be able to hold that line with costs going up? Are you going to be able to do that with the cost of living going up the way it is in other directions?

Mr. WILLIAMS: Let me quote one particular development, that of biodegradable detergents, to which it is anticipated the whole industry will be converted in Canada. I am very happy to say that the three major companies are the ones who brought this about in my opinion in Canada. To the best of my knowlege, all of us have turned to this conversion, and certainly we have, 100 per cent. That is going to cost our company about $140,000 to $150,000 a year. When we undertook this project originally as an industry, we said we were hopeful this would not have to be reflected in rising prices, and we are still hopeful that by our cost reduction program we will be able to absorb that. I cannot guarantee that if my chemical costs and packing materials rise in cost; but I can say that you can rest assured that it is not in our interest or the interests of our consumers that our prices should increase, so if we can absorb that cost we will do so.

Mrs. MACINNIS: Have you ever thought or explored the possibility of discussing with the retailer prices which would be the least possible to the consumer of your product?

Mr. WILLIAMS: Mrs. MacInnis, we encourage our retailers all the time to keep their prices as low as possible, but we cannot go beyond that. Take Bold, if you like. It is more costly, for there are other ingredients in it. We have priced it to the trade exactly at the same price as Tide, Cheer and so forth. We do all we can to keep the retail prices down, because of course, it is in our interests to do so, but in the final analysis we cannot go legally beyond that. We simply cannot control retail prices.

Mr. SCOTT (*Danforth*): Let me draw to your attention this package of Crest, which is stamped at $1.19.

Mr. WILLIAMS: May I see that. They certainly made a price change, didn't they? All these prices reflect, so far as I am concerned, the same list price.

Mrs. MACINNIS: That is precisely what I mean. What is the use of your keeping a cost down at the factory if the costs are jumped away up to the consumer? It is the business of this committee to try to get for the consumer goods at a reasonable price. Is there a way you can, by persuasion or by cooperation with the retailer, to get the price so that it shall be reasonable to the consumer? I mean, is there no responsibility in the mind of your company to do anything about that?

Mr. WILLIAMS: Of course we feel responsibility, of course we do, but really, even the federal Government has not found any way to say to one retailer, "You price it at that," and to another, "You price it at that." And we certainly cannot do so.

Mr. SCOTT (*Danforth*): Are you afraid of the chains?

Mr. WILLIAMS: No, why should I be.

Mrs. MACINNIS: But then you do not take any responsibility for holding down the ultimate price to the consumer.

Mr. WILLIAMS: Mrs. MacInnis, we take this responsibility. We can keep our own costs down, and we do keep our own costs down; I have proven that. After that, we do the best we can. If we have a cents off pack we make sure, so far as we can, that they pass it on to the consumer. If we have an allowance we do our best of course to make it a price feature, but if we went to a chain and said, "You price this for so much, and that for so much," we would be told in the first place, "Get out of my office;" and in the second place we might have to go to jail. We cannot do it.

Mrs. MACINNIS: Then the chains and the retailers are responsible for price increases?

Mr. WILLIAMS: It is entirely their responsibility, Mrs. MacInnis, yes.

Mrs. MacInns: In other words, as a final question, the retailers, in your opinion, are responsible always for the extra price to the consumers, the additional price mark up?

Mr. Williams: I will repeat what I have already said, that we do not set and cannot set retail prices. We control our prices. Our prices on the whole have moved, as you know, from previous figures, very modestly. Frankly, that is as far as I can go.

Senator McDonald: The package of Crest that you have there has three prices, $1.19, $1.29 and $1.49. Has there been any change in the price of Crest? I understand Mr. Scott bought this at an I.G.A. store. Has there been any change in your price to the I.G.A. chain stores for the last six months in Crest?

Mr. Williams: I do not know, but I will check it.

Senator McDonald: Or in the last year?

Mr. Williams: It has been pointed out to me, and this could be one of the reasons, that from time to time we give to the retail trade, at all levels, on an equal basis, merchandising promotion allowances. We encourage the retailer to pass these on in the terms of their prices, and it is 30 cents off in this case.

Mr. Scott (*Danforth*): Not down; it has gone up from $1.19 to $1.49, during the period in which you were doing this.

Mr. Williams: I cannot say.

Mrs. MacInnis: You have no way of enforcing that cents off reduction?

Mr. Williams: We have not but fortunately, just as in our own industry, there are competitive forces in retail prices and if someone is selling at $1.85, with 15 cents off, that is $1.70, the other who continues to offer at $1.85 would not be long in business.

Senator McDonald: Supposing that during the period in which this package of Crest was bought by the chain store from your company, that you had a cents off scheme, what would the cents off amount to on that size package of Crest, as a general rule?

Mr. Williams: I really do not know the answer to that question. I would have to get it for you. I am not sufficiently familiar with the promotion policy on Crest. I am not even sure that we use a cents off policy on Crest. Now I understand we do, but I do not know the value of it.

Senator McDonald: Surely you have a general knowledge which would enable you to answer this question. Surely it would not amount to 30 cents on a package of toothpaste? I do not know, I have no idea.

Mr. Williams: It might.

Co-Chairman Mr. Basford: We have another box of Crest here, which was purchased by the committee, priced at $1.19, reduced to 76 cents. (Box passed to Mr. Williams).

Mr. Williams: That is GEM, whoever they may be. They are out to get Crest business. $1.19 is the standard retail price and they have reduced it to 76 cents.

Mr. Joyal: They are losing money?

Mr. Williams: They might be.

Mrs. MacInnis: The ordinary housewife does not like the graduations, a few cents up or down. Is there no way in which she can plan her budget at the retail level? She is not interested in these fluctuations as they interfere with her budgeting?

Mr. Williams: I hate to sound unhelpful. We have our price list and sell at the same terms, depending upon the quantity they buy, to every retailer in Canada. Large retailers buy in carloads, small ones buy in 10-case lots or

through a jobber. Our price is equitable to everybody. As has been said in the brief, we try to influence the price and if we find someone has Lever or Colgate priced in the trade below ours, we do everything we can to get our price down to that competitive level. But if a retailer decides to raise his price by cents, so long as he does it on them all we cannot say to him that he cannot do that. We have not got that power.

Senator CARTER: Do you have a suggested price for these packages?

Mr. WILLIAMS: Yes.

Senator CARTER: What is the suggested price for the one that went from $1.19 to $1.49?

Mr. WILLIAMS: In the case of the one that went from $1.19 down to 76 cents, I guess the suggested price was $1.19 and these people decided to go down to 76 cents.

Senator CARTER: What about the other one?

Mr. WILLIAMS: I really do not know. I can give you the carload but I cannot give you the suggested retail price.

Senator CARTER: It would be more than $1.18?

Mr. WILLIAMS: Yes, it is a much bigger tube.

Senator INMAN: Who will pay the cost of this representation? Will it be absorbed by the consumer, or will the shareholders get less dividends? These briefs cost a lot of money to prepare.

Mr. WILLIAMS: I do not regret it, because, as I said when I started, this is a very important inquiry. I know this, that for the past five weeks or more, virtually all our top management team—and this is really where the cost is—have been devoting many hours of each day and each weekend—for the last three week-ends, each one of us has been in the office on Saturday and Sunday—attempting to present to you, not an evasive, not an untrue, but we hope a helpful brief. This is the cost of this inquiry to us. It is the cost of our management time over several weeks. This has been in addition, of course, to continuing to try to run a complicated business.

If you want a specific example, when it was found that Air Canada might have a strike, we also hired a private aircraft, to be able to be sure that we would be here this morning—and I am glad to say we were.

Mrs. MACINNIS: That still does not answer the question, who is going to absorb the cost?

Mr. WILLIAMS: The case is going to be that this is one of the Government costs of doing our business, and we would say that this would be a chargeable expense. I hope the National Revenue will agree with us.

Mrs. MACINNIS: Maybe.

Co-Chairman Mr. BASFORD: The British Board of Trade recently ordered your company and Lever Brothers to cut their advertising budgets in half. Is that correct?

Mr. WILLIAMS: Not quite correct sir, no.

Co-Chairman Mr. BASFORD: Could you correct me?

Mr. WILLIAMS: I would be delighted to put the record straight. What has happened is that the Monopolies Commission in the United Kingdom have recommended for consideration that Procter & Gamble and Unilever Limited should cut their advertising and selling expense by 40 per cent and cut their wholesale prices by 20 per cent. That is a recommendation of the Monopolies Commission which has been forwarded to the Board of Trade and is now under discussion, as I understand it, between the Board of Trade and the two companies concerned. No conclusions have been reached. Needless to say, the two companies concerned do not agree with the Monopolies Commission Report.

Co-Chairman Mr. BASFORD: How did the level of the advertising and selling expenses of the United Kingdom operation compare with the Canadian operation?

Mr. WILLIAMS: I do not know, sir. I have been out of that operation now for three years and I do not know what the figures are.

Co-Chairman Mr. BASFORD: How did they compare three years ago?

Mr. WILLIAMS: I really do not know, Mr. Basford, I really do not know.

Co-Chairman Mr. BASFORD: But you must have left the English company to come here and have changed from one set of figures to another?

Mr. WILLIAMS: Let me tell you a little about my history, to show I am getting old and out of date. I came to Canada in 1960 to set up the Food and Toilet Goods Division. I stayed in Canada for two years and then went to Europe, when I went to handle the business in Scandinavia. I then had no operating or acting responsibility for the British company and for the last three years I have been back here in Canada doing my present job. So I am now a minimum of six years out of date with what has happened in the United Kingdom—and of course conditions have changed enormously since then. What happened six years ago is quite different from what is happening now.

Co-Chairman Mr. BASFORD: If the United Kingdom Board of Trade accepts the recommendation of the Monopolies Commission, how is that enforced?

Mr. WILLIAMS: I do not know, sir, how they will enforce that. I have no idea. This is the first time that one industry has been selected in this way and its operating procedures questioned to the degree where there is any possibility of enforcement. I do not know how they are going to do it.

Mr. JOYAL: Mr. Williams, you have given us your comparative statements of profit and loss in Appendix 5. Perhaps you could also file with the committee your balance sheets for that same period of years. You could file those later, if you do not have them with you now.

Mr. WILLIAMS: We do not have them, Mr. Joyal, but we will be delighted to get them for you.

Mr. JOYAL: Similarly, if you look at Appendix 3, you will see that you have given us a breakdown of your 10 major commodities and the percentage of costs involved therein and the profit and so on.

Mr. WILLIAMS: Yes.

Mr. JOYAL: Would you give us the actual figures on gross sales?

Mr. WILLIAMS: I will be delighted to provide that information also.

Mr. JOYAL: You are, I take it, a subsidiary of the American company?

Mr. WILLIAMS: We are a wholly-owned subsidiary of The Procter & Gamble Company of Cincinnati, Ohio.

Mr. JOYAL: Do you make any payments to your parent company from year to year?

Mr. WILLIAMS: Yes.

Mr. JOYAL: Do you make payments other than for commodities or goods that you purchase from them?

Mr. WILLIAMS: We pay what we colloquially call a "technical services fee".

Mr. JOYAL: What does that amount to?

Mr. WILLIAMS: This fee was discussed very thoroughly with the federal Government and is, in fact, one per cent of our net sales.

Mr. JOYAL: I see. This covers all of the technical services that they provide.

Mr. WILLIAMS: It covers everything they provide to us, engineering, product know-how, new products, product development, market research, engineering

help, manufacturing processes, help in design of buildings and so on and so forth. Yes, sir.

Mr. JOYAL: And you were suggesting that the Department of National Revenue has admitted of this particular percentage figure as being deductible.

Mr. WILLIAMS: Yes. Indeed, I think they felt that we were getting very good value.

Mr. JOYAL: Do you have any subsidiaries in Canada yourself?

Mr. WILLIAMS: Our own company has none. Our parent company has one, the Victory Soya Mills.

Mr. JOYAL: Victory Soya Bean? I see. Has your Canadian company any financial interest in any other Canadian company involved in food or consumer products?

Mr. WILLIAMS: None whatever.

Mr. JOYAL: When you provide us with your balance sheets, which will indicate your assets and liabilities, we hope of course to be able to determine not only what is your net profit before or after taxes, as disclosed in Appendix 5 but also what might be the comparable figures with other industries in regard to your return on investment.

Mr. WILLIAMS: That you will find, of course, on the balance sheets.

Mr. JOYAL: Now, are there any retained earnings that you hold in Canada at the present time? Are there any undistributed profits that you hold in the Canadian company which have not been paid out as dividends to the American parent?

Mr. WILLIAMS: Oh, yes, indeed we built the business on retained earnings.

Mr. JOYAL: Could you give us, from the top of your head, perhaps, what have been the amounts of dividends paid to the American parent company over the past five years?

Mr. WILLIAMS: No, I cannot. I know that we paid $3 million something last year. I think it was $3,090,000 or something of that order. I cannot tell you what we paid in the previous years, but that will show up on the balance sheets.

Mr. JOYAL: I take it that your balance sheet will disclose what has been the investment income from the undistributed profits as well.

Mr. WILLIAMS: I think they will show that, yes. It is a complete balance sheet, so it should.

Mr. JOYAL: Next, you have mentioned improvements in your products. At page 33 of your brief you mention 14 improvements to Tide.

Mr. WILLIAMS: Yes.

Mr. JOYAL: I do not want to list all 14 improvements. That would take too long; but can you give us some of the major improvements to Tide since it first came on the market? And according to Mrs. MacInnis that was in 1950.

Mrs. MACINNIS: It was in 1948.

Mr. WILLIAMS: You are quite right; you have a good memory. I would like Mr. Pollock to answer that question.

Mr. JOYAL: Fine.

Mr. POLLOCK: Tide, of course, is sold on a cleaning platform, because it excels in cleaning. Therefore, you will not find it surprising that more than half of the 14 improvements have related directly to whitening and cleaning.

Mr. JOYAL: I see.

Mr. POLLOCK: Beyond that we have, just as an example, the improvement recently mentioned by Mr. Williams, namely, the conversion to a bio-degradeable formulation. We have improved the speed with which Tide dissolves, particularly in cold water. Very early after the introduction of Tide, we incorporated a tarnish inhibitor which improved the performance of Tide as a dishwasher. Particularly at that time many people used Tide to wash dishes.

Our aim has always been to make Tide compatible with its role as the No. 1 general household cleaning product.

Mr. JOYAL: You are suggesting that Tide today is a better product than it was 15 years ago.

Mr. POLLOCK: Very definitely.

Mr. JOYAL: And yet the price has remained constant.

Mr. WILLIAMS: I would not say it has remained constant for 15 years.

Mr. JOYAL: But it has remained stable.

Mr. WILLIAMS: Yes, it has remained stable.

Mr. JOYAL: So, today, it could be alleged that the quality of the product has increased more than its price.

Mr. WILLIAMS: Very definitely.

Mr. JOYAL: At least this is what you allege.

Mr. WILLIAMS: Yes, and I think it is true too. As Mr. Pollock rightly pointed out, I do not think we could sell our 1948 Tide today.

Mr. JOYAL: You also referred at length in your brief to the research and development and the marketing process involved in Crest. Could you indicate the total amount for research and development that your company has spent over the long number of years it took to develop this particular product? The assumption is, of course, that it is an improvement over other dentifrices.

Mr. WILLIAMS: May I ask you a question?

Mr. JOYAL: Yes.

Mr. WILLIAMS: Do you doubt that Crest was a tremendous breakthrough?

Mr. JOYAL: As the co-chairman said awhile ago, we are looking at evidence; not at proof. This is your evidence.

Mr. WILLIAMS: I do not have a figure, but, of course, the basic development of Crest was done in the United States. I do know, however, that it cost many, many millions of dollars. I am fairly sure I would not be wrong if I said it was at least $25 million. It might even have been $40 million. I just do not know. It was a huge amount, though.

Mr. JOYAL: And the cost to the Canadian company would be proportionate to its sales at that time?

Mr. WILLIAMS: We are fortunate, Mr. Joyal, in that we pay our one per cent on net sales but get all the benefit of the research of the parent company.

Mr. JOYAL: There was a purpose to my question. I noticed in reading through Appendix 5 that your manufacturing expenses, research and so forth, have gone up from 1961 to 1966 by 60 per cent in dollar values. In percentage values, in terms of your sales, whereas it represented 5.7 in 1961 it now represents 7.3 in 1966, which is an increase of 28 per cent.

Now, can we assume that the increase in manufacturing expenses, research and so on, might have remained relatively stable? Would this increase of 28 per cent represent an increase in your research development expenses or could you otherwise provide us with a breakdown of that particular item in Appendix 5?

Mr. WILLIAMS: I am sorry. Forgive me, but let me get the question clear, because it is complex.

Mr. JOYAL: I will try again. Your item marked Manufacturing Expenses, research and so forth indicates an increase in dollars from 1961 to 1966.

Mr. WILLIAMS: Yes, 4.4 million to 7.1 million.

Mr. JOYAL: That is 60 per cent.

Mr. WILLIAMS: Yes.

Mr. JOYAL: As a percentage cost on sales, it represents an increase of 28 per cent. What I want to find out, and perhaps you have not got those figures with you but will provide them later, is what part of that percentage increase of 28 per cent is attributable to manufacturing expenses and what amount is attributable to research and development?

Mr. WILLIAMS: We will attempt to break that down for you, sir.

Mr. JOYAL: Thank you. If everything that has been said about Crest is true, I think it should be clear that research and development, which would be organized as an operation in a privately-owned company like yours, might conceivably at some time be of benefit to the public at large. Do you follow me?

Mr. WILLIAMS: I think it has been of benefit to the public at large already. Yes, indeed.

Mr. JOYAL: If you should indicate that you do spend much more on research than you did before, and perhaps you have some indication among your products that there have been improvements, then it would be the work of the committee to compare the increase in prices with the increase in quality.

Mr. WILLIAMS: I understand.

Mr. JOYAL: Just one more question, Mr. Williams. Both Mr. Allmand and Mr. Scott, as well as Mrs. MacInnis, referred to the possibility of finding a formula where, as far as the consumer is concerned, she would be more enlightened or better guided in making a choice when it comes to prices. I am just wondering, if a solution or formula could be found whereby the price by Procter and Gamble of any of its commodities per ounce to the retailer could be indicated on the box, what difficulty would you have thereafter in having your commodities placed on the retailer's shelf. This would indicate, of course, as you can see, to the consumer just what the actual mark-up is on a particular piece of soap or box of Bold or Ivory, or whatever it might be.

Mr. WILLIAMS: I say, Mr. Joyal, again—and I am trying to be helpful here—it would mean this, that there are roughly, I think I am right in saying —about how many accounts do we have in Canada?

Mr. CHURCH: 14,000.

Mr. WILLIAMS: We call on about 14,000 stores, Mr. Church tells me, who buy at different levels. For example, your small independent gets one cost per ounce, your chain store gets a different cost per ounce, the jobber gets a different cost per ounce. In fact, I see here there is a total of 32,000 grocery outlets in Canada. We call on about 14,000 of them. These people buy at a particular price, either directly from us or their buying association or the local jobber. I am not sure how helpful it would be to "Mrs. Housewife" to see what our price to them was. It would certainly present us with a massive problem of printing a different cost per ounce on these cartons, and we would have to segregate them, to make sure this lot only went to Loblaw's, A&P or Dominion, and this lot went to "Joe Smith" up in Saskatoon. It would be a very difficult problem.

Mr. JOYAL: That is fine; that is why I asked the question. Advertising and promotion. You have indicated there are about 5 million families in the country which are all headed, presumably, by 5 million housewives.

Mr. WILLIAMS: Yes.

Mr. JOYAL: Assuming that you have $100 million-worth of sales a year, can it be suggested the housewife would be buying approximately $20 of your products a year, on the average?

Mr. WILLIAMS: Some of our business is in industrial detergents which go to laundries, but I suppose in the end she supports the laundry and buys margarine and so forth.

Mr. JOYAL: Assuming it costs you something like 14 per cent of your selling dollar for advertising, the housewife is paying approximately $3 on advertising from year to year out of the $20 of products she buys.

Mr. WILLIAMS: That is a simple piece of arithmetic.

Mr. JOYAL: Yes.

Mr. WILLIAMS: Right.

Mr. JOYAL: What share of the market do you have in terms of the products that you sell which are mostly detergents, cleaning products, soaps, and so on?

Mr. WILLIAMS: We have between—it varies, of course, but we have between about 35 and 40 per cent of the cleaner market—soaps, detergents, and things of that kind.

Mr. JOYAL: Is there any one of your commodities which runs at more than 50 per cent of the market?

Mr. WILLIAMS: We have more than 50 per cent in the cleaner field, where you have dry and liquid products. There we have, I guess, around 70 per cent.

Mr. JOYAL: That is all, thank you very much.

Co-Chairman Mr. BASFORD: Could I ask one question? You have shown, as have a number of other witnesses, that your prices have been fairly stable, but the consumer price index has gone from 120.2 in January, 1965 to 126.7 in September, 1966. That is a 6.5 per cent increase. According to your brief and the Colgate brief—this is for powdered detergents only—this is not due to increases in price at the wholesale level—that is, your price increases. Could you give us some explanation of where that 6.5 per cent increase has occurred, and what factors have caused it?

Mr. WILLIAMS: As I understand it, Mr. Basford, that is the retail price index you are looking at.

Co-Chairman Mr. BASFORD: Yes.

Mr. WILLIAMS: That is obtained by D.B.S. from their observation of retail prices. D.B.S. does publish an industry selling price index for soap, washing compounds and cleaners. This shows the industry selling price index in 1964 averaged 114.9; for September, 1966 it is 114. I can only say again, we do not control retail selling prices. The price increase I have quoted of $1\frac{1}{2}$ per cent is an accurate figure, and the other price increases I have quoted for the subsidiary product groups are also the best average accurate figures we can give you—and they are pretty accurate.

Co-Chairman Mr. BASFORD: I am not questioning your figures in any way.

Mr. WILLIAMS: No, I appreciate that.

Co-Chairman Mr. BASFORD: And I am aware you do not set the retail price, but as an observer of the market place, what would be your observation as to at what level of distribution these increases would occur?

Mr. WILLIAMS: It is obvious they occurred at the retail distribution level. From my personal observation—and I spend a certain amount of time in stores—the increase is by no means confined to any one particular group. It is spread right across the whole grocery trade in Canada, both in independent, associations and, of course, the chains. There has unquestionably been a larger increase in the retail selling prices than the wholesale prices.

Mr. JOYAL: Do you think this will be reflected when the retailers file their 1966 balance sheets and profit and loss accounts? They have already appeared here and indicated a fairly constant profit margin or return on investment.

Mr. WILLIAMS: I do know their prices on the shelf have gone up for our types of products more than our prices to them have gone up. That is obvious, and nobody can possibly argue about that—not even the chain stores themselves. It may well show up in their balance sheets, but what I do not know is what their increases in costs have been. With the enormous number of new supermarkets that have been opened and the increased services they have to give, I do not know how much of the increase in price has been forced upon them. All I know is that their price increase has been a greater percentage than ours to them.

Mr. JOYAL: You are certainly, by your advertising in papers, in some cases trying to educate the public. For instance, "Use Crest, because it might avoid cavities," and so on. Would you perhaps be prepared to contribute to more extensive consumer programs which would indicate to the consumer she needs more sophistication today in terms of mass production and in different shapes and sizes, to educate her that she has to exercise her judgment now in a sufficiently sophisticated way to meet your sophisticated market conditions?

Mr. WILLIAMS: If any concrete proposal is put forward as to how we might be helpful in that area, we are a consumer-oriented company, and if we can be helpful, then we will be.

Mr. JOYAL: So long as it does not prejudice your competitive position?

Mr. WILLIAMS: I think our competitive position is going to be finally resolved, frankly, on quality. I am a little hesitant to say this in this meeting, for obvious reasons. I think our competitive position, our gains and losses, will depend on our ability to offer the consumer better products than our competitors. If a competitor offers a better product than we offer, he will take our business.

Co-Chairman Mr. BASFORD: I can assure you that if we have a consumer affairs department you will be contributing 52 per cent of your profits to it! I am a little curious. You are the only company that has come before us and spoken quite bluntly about private label brands. All the other companies have danced around the issue very gently. I am interested in that because of a comment I read in Dun's Review of May, 1963, describing your company, and which said:

> With such flexible advertising power, P&G salesmen are probably the most admired and feared in the entire packaged goods business. "They're always gentlemen to the core," says a Princeton, New Jersey retailer, "But when they walk in with their soft-spoken ways, you know they're always carrying that big advertising stick. When they bring in a new product, you just have to take it. Otherwise, with all that advertising, the women start coming in here and screaming 'Where is Mr. Clean?'—

and in this case he is right here.

> —'Where is this?', 'Where is that?' "

I am interested in that because you are the only company that has taken on the private label brands.

Mr. WILLIAMS: Well, sir, I think we have a very solid case, and I am prepared to say, if I may, in all seriousness—well, Mr. Pollock has already invited the committee itself, or its representatives, to visit our research facilities in Hamilton. We will not try to hoodwink you, but we will show you, and I think you will go away satisfied. I think, Mr. Basford, that you and even Senator Inman—she is not here at present—will be satisfied. Even though it will raise the cost of our attendance at this committee a little we will be delighted to have you come and visit us at Hamilton.

Mr. JOYAL: We will use your chartered plane.

Mr. WILLIAMS: We have it only for two days.

Mr. SALTSMAN: Mr. Chairman, I would like to refer to Appendix 7—

Co-Chairman Mr. BASFORD: I would remind you, Mr. Saltsman, that it is now five minutes to one o'clock. I know you will bear that in mind.

Mr. SALTSMAN: Yes. I am interested in the per capita consumption of washing products. Apparently Canada appears to be far down on the list when compared to the United States and the United Kingdom in the consumption of these products. I would like to know why. Is this because Canadians wash less than people in the U.K. or the U.S.A.?

Senator CARTER: Perhaps we make more efficient use of soap.

Mr. WILLIAMS: I am sure, Mr. Saltsman, there are many reasons for this. Here is one, for example. In the United States—but this is occurring in Canada—they have a much bigger distribution of automatic washing machines than we have. I think the figures demonstrate that 90 per cent of homes in the United States have one sort of washing machine or another. About 60 per cent of the homes there, as compared to about 30 per cent in Canada, have automatic washing machines. An automatic washing machine is an enormous convenience to a woman. She puts the clothes in and then goes off and does something else. At the same time, automatic washing machines are not only more expensive to buy but they are obviously more expensive to run. In homes that have automatic washing machines it is found that they are more expensive to run because (a) the machines themselves use larger amounts of water and so tend to be somewhat more costly; (b) you do only one washing in that you do not re-use the suds for a second load; and (c) if you have an automatic washing machine you tend to wash clothes more often—you tend to wash smaller loads more often. These are factors in the increased percentage in respect of the United States.

Also, the United States is a much bigger market. In Canada we have an enormous number of people who have come from Europe in the last few years—and I am one of them—and I think in many cases they are discovering the use of modern detergents for the first time, and are using them at a greater level than they are used in some countries of Europe. These are factors that make the figures for the States high and ours relatively low.

I would be the last to suggest that Canadian men and women are not as clean as the men and women south of the border or across the Atlantic.

Co-Chairman Mr. BASFORD: You had better not.

Mr. SALTSMAN: How do you conduct advertising in Canada compared to what you do in other countries? How does your per capita advertising in Canada compare with that in the United States and the United Kingdom? Can you give us an indication of that?

Mr. WILLIAMS: I cannot, but I would be delighted to get you the figures. They are available, but I just do not happen to have them with me.

Mr. SALTSMAN: With respect to the liquid detergent demonstration you gave us, showing that the private brand suds break down quicker than those of the national brand or your brand, have you made an analysis of these two brands in order to isolate the different ingredients? Why is your brand, in your words, better, and why can it do more washing than the private label brand?

Mr. WILLIAMS: We have done very thorough—I am not a chemist and I do not have the formulations here, but we have done a very thorough chemical analysis of the private labels.

Mr. SALTSMAN: What are the ingredients?

Mr. WILLIAMS: I could not tell you. I do not have that information here, but I can get it, and I would be glad to do so.

Mr. SALTSMAN: Can you give us that information, Mr. Pollock? You are engaged in that sort of thing, are you not?

Mr. POLLOCK: Yes, the basic formulations of the two products are different. It is not simply a matter of concentration of the ingredients in the products. Ivory Liquid is composed of different ingredients and has a different surfactant system from that of the private label.

Mr. SCOTT (*Danforth*): Incidentally, when the suds are gone is the cleaning power gone?

Mr. POLLOCK: The cleaning power is diminished to the point where our research people say it is no longer of any use, and this is unlike the situation in the washing machine where the cleaning job is much more complex. Hard surfaces such as those of a plate and other items in the dishpan can be cleaned simply by working harder. If you analyze this carefully I think you will agree that it is possible to wash dishes with enough elbow grease without any detergent at all. There are other factors that enter into it such as the ease of washing, the rinsing and the wiping dry.

Mr. SCOTT *(Danforth):* But when you stop washing and the top suds disappear—it is our information that the suds have very little to do with the cleansing power.

Mr. POLLOCK: I am telling you, sir, that we know that suds in this situation have a direct relationship to cleaning power. We are not saying that the suds clean, but we are saying that the sudsing is a reliable indicator of cleaning power in the dishpan or sink.

Co-Chairman Mr. BASFORD: But you started to say a moment ago that people stop using it when the suds disappear.

Mr. POLLOCK: I intended to say that.

Co-Chairman Mr. BASFORD: That is quite a different thing—whether in fact the cleaning power disappears, or whether people think the power disappears. Admittedly people think the cleaning power disappears when the suds disappear, and this was Mr. Beeson's argument as to why there are suds in it.

Mr. POLLOCK: I want to state emphatically that cleaning power is greatly diminished—that the performance is seriously affected—when the suds disappear, and, therefore, there is a relationship. But, cleaning power is not gone as long as you have some water there. Clean water with enough effort combined is going to turn into a sinkful of dirty water.

Mr. SCOTT (*Danforth*): But your president said it was only an indicator.

Mr. POLLOCK: Sudsing is an indicator of cleaning power and dishwashing power.

Mr. SCOTT *(Danforth)*: But has it really anything to do with cleaning power?

Mr. POLLOCK: It is not the basic cause of cleaning power.

Mr. SCOTT *(Danforth):* It is just what the public thinks it is?

Mr. POLLOCK: No, sir.

Mr. SCOTT *(Danforth):* You would not agree with that?

Mr. POLLOCK: No, sir.

Mr. SCOTT *(Danforth):* You would not agree with Mr. Beeson when he told us on Tuesday that because they cannot convince the housewife that suds have

no value they are spending $100,000 on putting suds into a product even though they are convinced it has no value.

Mr. WILLIAMS: Could we see the record of that, because it does sound a rather strange statement.

Mr. SALTSMAN: It was a statement made to us on Tuesday. You have been very careful to describe the role of suds—I was just reading this over—as an indicator of cleaning power in dishwater. Can I infer from this that the evaluation of suds in a washing machine is a different thing? Are you restricting your assessment of the role of suds simply to that of suds in dishwater, or are you saying this as a general thing about suds in a washing machine or anything else?

Mr. WILLIAMS: Mr. Saltsman, you were not here when I was asked that question before, but let me try to answer it again. Our position is this, that in the high sudsing detergents of the Tide and Cheer variety the suds level that you get in, say, a wringer type washing machine is a clear indication not only to the housewife but to our technical people that the solution which lies under those suds, or under that lather—call it what you will—has got cleaning power, and when that lather or suds disappear then that cleaning power is diminished to a very considerable extent, and the solution is no longer capable of doing the cleaning job it was capable of doing when the lather or suds were at the top of the water.

Now, as you know from your personal business experience, it is possible to make a product which does not suds, or sudses very, very little, and yet is a very effective cleaning agent. As I explained to the committee, we have a product—its name is Dash—in which we actually put suds suppressors in order to get rid of the suds which otherwise would be present. Of course, as you also know, the reason we do that is because high sudsing products are totally incompatible in the working of a front loading automatic washing machine, so we take the suds out. But we do not spend money to put suds in, on the one hand and spend more money to take out suds, on the other hand.

Mr. SALTSMAN: But is there not really some argument for trying to tell the consumer that she does not really need the sudsing, that there are other ways of evaluating soap?

Mr. WILLIAMS: I can think of no advertising that we do which advertises to the lady, the housewife, that she should buy our product because it sudses well. We do tell them on the package, "Add enough product to make a good lather," and the reason we say that is because if she does so she will get a good cleaning job done.

Mr. SALTSMAN: You made a distinction before that it depends on what kind of machine she puts it into.

Mr. WILLIAMS: If she were to make a good lather with Tide and use say a front loading Bendix machine, she would not get a good result, the machine would not work. I know that, because I have had one. The suds get into the way of the machinery. The only way is to put in so little of the product as to keep the suds well down. That is precisely why Lever introduced that kind of product, and why Procter and Gamble has Dash, and we put in suds suppressors to get rid of the suds so that the housewife can make a good rich solution without having a physical problem of the lather on the top getting in the way of the works.

Mr. SALTSMAN: But would it not be valuable from the consumer's point of view for you to develop a product where she would not have to worry about this particular kind of washing machine, or any kind of washing machine she might use, to get away from the suds?

Mr. WILLIAMS: We now have three types of products available. We have Dash, which is available for those women who basically are users of automatic washing machines, with a very low level of suds indeed, and which does a good cleaning job. We have our normally high sudsing products which are used basically by the woman who has a wringer machine or a top loading automatic. We also have a third, which has been proven by the consumer, and in fact designed as the result of intense consumer research into the subject of cleaning whiteness and suds levels, and that is Bold. Bold is a different product from Dash and Tide, different in constituent elements, different in its formulation and different in its behaviour. It does not produce suds as high as Tide, but better than Dash. All I can say so far is that quite a lot of Canadians seem to like it, thank goodness.

Mr. SALTSMAN: You almost have to be an engineer.

Mr. WILLIAMS: You are quite right, it is almost an engineering job.

Mr. SALTSMAN: I would like to ask another question.

Co-Chairman Mr. BASFORD: We should like to adjourn fairly soon.

Mr. SALTSMAN: I have a short question. On page 41 of your brief you speak about private brands versus national brands, and the brief states:

> This fact has compelled us to devise means by which nevertheless we can compete effectively. Our basic competitive device is to appeal direct to consumers over the head of the retailer.

And then the brief continues:

> It is necessary for us, and desirable for the economy, that these retail organizations have effective competition.

Is there in fact a struggle between manufacturers and retailers for customer loyalty to the product, rather than the stores and the retailers, on the other hand, perhaps trying to do the opposite, and a lot of your advertising directed to a large part to this struggle rather than education of the public.

Mr. WILLIAMS: No, I do not think you can say that. Until very recently here in Canada we manufacturers designed, invented the products, which we still do, and the retail organizations basic job was to distribute those products in the most effective, efficient and low cost way possible. They have decided in recent years to go into their own private label brands. At this point, of course, they come into collision with us. We do not have retail stores of our own. That is a competitive factor. I can only repeat that I hope we shall succeed in the competitive struggle through continuing to invent products, not just get others to make them for us, but to invent and improve them, and then keep our prices down.

Mr. SCOTT (*Danforth*): You are using the power of your advertising to create a demand for your products over the head of the general stores, but the price the poor consumer pays, you say that has nothing to do with you.

Mr. WILLIAMS: That is quite untrue, you know. In my discussion with Mrs. MacInnis I explained that we are extremely conscious of the need for our products to be priced as low as possible to the ultimate consumer, and we do the best we can by keeping our costs down and keeping our quality up, and then selling our products at the lowest possible cost we can.

I think if you look at our appendix to the financial statement, that that is a revelation of the extent to which we have tried to carry out that part of our responsibility. However, I simply cannot be asked to take on a responsibility which the law says is not mine. I can do my best, and my people do their best, to persuade everybody handling our products, to handle them as economically and as at low cost as possible. More than that, I cannot do, sir.

Co-Chairman Mr. BASFORD: The committee will re-convene at 3 o'clock.

Mr. WILLIAMS: Before we adjourn, Mr. Chairman, may I say that the question of the monopolies commission was raised this morning and the situation in Britain. I have with me copies of an article in *The Economist* which I think will be of interest to members of the committee, and I should like to have them distributed.

Co-Chairman Mr. BASFORD: Thank you, they will be distributed.

We appreciate your coming here and for the help you have given us, Mr. Williams.

Mr. WILLIAMS: Thank you, Mr. Chairman.

The committee adjourned.

THE PROCTER & GAMBLE COMPANY OF CANADA, LIMITED

APPENDICES

TO

THE SUBMISSION

TO

THE SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON FOOD PRICES

DECEMBER 1st, 1966

APPENDICES

APPENDIX 1. Packing Materials—1961 to 1966

APPENDIX 2. Prices — June 1, 1965 to December 1, 1966

APPENDIX 3. Ten Major Product Categories

APPENDIX 4. List of all Household Cleaners

APPENDIX 5. Comparative P & L — 1961 to 1966

APPENDIX 6. Taxes Paid

APPENDIX 7. Per Capita Consumption of Washing Products

APPENDIX 1.

PACKING MATERIALS

Years Ending June 30

	$ 000	% to Gross Sales
1961	6,706	8.7
1962	7,828	9.2
1963	8,136	10.3
1964	7,876	9.8
1965	8,606	9.8
1966	8,704	9.0

APPENDIX 2.

CARLOAD SELLING PRICES (DELIVERED)
ONTARIO/QUEBEC

Brand	No. of Pkgs. per Case	Weight per Shelf Unit	Price per Case		% Change 18 months
			June 1/65	Dec. 1/66	
			$	$	
Ivory Bar	144	4 oz.	12.64	12.64	—
Camay	72	3.5 oz.	8.86	8.86	—
Zest	72	3.75 oz.	11.17	11.17	—
Safeguard	50	5.1 oz.	11.13	11.13	—
Ivory Snow	12	2 lb. 2 oz.	10.32	10.52	+ 1.9
Tide, Cheer, Bold	12	2 lb. 10 oz.	10.06	10.26	+ 2.0
Oxydol	12	2 lb. 12 oz.	10.27	10.48	+ 2.0
Dash	4	9 lb. 6 oz.	11.25	11.52	+ 2.4
Duz-Face Cloth	24	15 oz.	10.27	10.48	+ 2.0
Ivory Liquid, Joy	9	32 fl. oz.	9.34	9.34	—
Mr. Clean	24	16 fl. oz.	9.88	9.88	—
Spic & Span	12	2 lb. 8 oz.	9.90	9.90	—
Comet	48	14 oz.	8.87	9.26	+ 4.4
Downy	12	34 fl. oz.	8.92	8.92	—
Crisco	36	1 lb.	13.24	13.24	—
Fluffo	36	1 lb.	12.05	12.05	—
Crisco Oil	24	12 oz.	7.49	8.25	+10.0
Duncan Hines	12	17 flavours	4.70	4.70	—
Crest, Gleem	12	$5\frac{5}{8}$ oz.	9.52	9.52	—
Head & Shoulders	12	2.4 oz.	9.52	9.52	—
Secret	12	5 oz. Aerosol Spray	10.01	10.01	—

TEN MAJOR CATEGORIES—PROFIT AND LOSS ANALYSIS

	Toilet Soaps	Toilet-ries	Pkgd. Deterg.	Laundry Special-ties	Bulk Deterg.	Pkgd. Short-enings and Oil	Bulk Short-enings	Marga-rine Oil	Cake Mixes	Glyc-erine
Gross Sales	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Cash Discounts, Returns and Sales Taxes	10.4	18.2	10.4	10.4	8.3	1.1	0.6	—	1.1	0.9
Purchased Materials	24.3	21.2	25.5	19.5	32.9	55.0	60.1	80.2	26.8	71.4
Packing Materials	7.3	11.4	9.2	10.4	5.0	7.6	3.3	—	10.3	1.2
Mfg. Wages and Salaries	13.2	4.3	4.3	7.6	12.0	5.7	8.1	9.0	6.7	10.4
Other—Mfg. Expenses, Research, etc	8.5	6.4	7.7	9.3	12.7	6.6	12.8	9.4	12.1	9.3
Total Cost of Goods	53.3	43.3	46.7	46.8	62.6	74.9	84.3	98.6	55.9	92.3
Sales Force and Billings	2.1	3.7	3.6	4.2	9.6	4.1	6.1	0.6	5.6	1.9
Delivery	3.9	1.6	5.7	5.0	6.9	4.9	4.4	1.8	6.0	3.3
Administration and Other	4.3	6.5	5.4	5.4	1.2	3.8	0.8	0.5	4.8	0.3
Direct Advertising	13.0	18.3	10.4	9.4	—	7.4	—	—	5.2	—
Cooperative Advertising	0.5	2.4	0.9	1.0	—	0.9	—	—	3.0	—
Sales Promotion	5.5	8.3	6.9	3.7	0.8	1.6	0.7	—	7.5	—
Income Taxes	3.6	(1.2)	5.2	7.3	5.5	0.7	1.6	(0.8)	5.7	0.7
Net Profit After Tax	3.4	(1.1)	4.8	6.8	5.1	0.6	1.5	(0.7)	5.2	0.6

APPENDIX 4.

HOUSEHOLD CLEANING PRODUCTS TRADE NAMES AND PACKAGE SIZES

Brand	No. Packages Per Case	Marked Product Weight Per Unit
Tide	8	5 lb.
Cheer	8	5 lb.
Bold	8	5 lb.
Tide	12	2 lb. 10 oz.
Cheer	12	2 lb. 10 oz.
Bold	12	2 lb. 10 oz.
Tide	24	1 lb. 4 oz.
Cheer	24	1 lb. 4 oz.
Bold	24	1 lb. 4 oz.
Oxydol	8	5 lb. 3½ oz.
Oxydol	12	2 lb. 12 oz.
Oxydol	24	1 lb. 5 oz.
Dash	4	9 lb. 6 oz.
Dash	8	4 lb. 11 oz.
Dash	24	1 lb. 9 oz.
Spic & Span	8	4 lb. 6½ oz.
Spic & Span	12	2 lb. 8 oz.
Spic & Span	24	1 lb. 3½ oz.
Duz-Bath Towel	8	3 lb. 3 oz.
Duz-Tea Towel	12	1 lb. 14½ oz.
Duz-Face Cloth	24	15 oz.
Ivory Snow	8	4 lb.
Ivory Snow	12	2 lb. 2 oz.
Ivory Snow	24	1 lb.
Dreft	12	2 lb. 5 oz.
Dreft	24	1 lb. 2 oz.
Ivory Flakes	24	14 oz.
Cascade	24	1 lb. 4 oz.
Joy	9	32 fl. oz.
Ivory Liquid	9	32 fl. oz.
Joy	12	24 fl. oz.
Ivory Liquid	12	24 fl. oz.
Joy	24	12 fl. oz.
Ivory Liquid	24	12 fl. oz.
Mr. Clean	12	32 fl. oz.
Mr. Clean	24	16 fl. oz.
Downy	12	34 fl. oz.
Downy	24	17½ fl. oz.
Comet	36	1 lb. 5½ oz.
Comet	48	14 oz.
Comet-Bathroom Bundle	63	6 oz. Cans

COMPARATIVE STATEMENTS OF PROFIT AND LOSS

	Fiscal Years Ended June 30											
	1961		1962		1963		1964		1965		1966	
	$MM	%	$MM	%	$MM	%	$MM	%	$MM	%	$MM	%
Gross Sales	77.4	100.0	84.8	100.0	78.4	100.0	80.7	100.0	87.7	100.0	97.0	100.0
Less: Cash Discount, Returns and Sales Taxes	7.3	9.4	7.8	9.2	7.1	9.1	7.4	9.2	8.4	9.6	9.5	9.8
Net Sales	70.1	90.6	77.0	90.8	71.3	90.9	73.3	90.8	79.3	90.4	87.5	90.2
Cost of Goods:												
Purchased Materials (excl. Packing)	27.1	35.0	29.7	35.0	24.4	31.1	25.2	31.2	27.4	31.2	32.2	33.2
Packing Materials	6.7	8.7	7.8	9.2	8.1	10.3	7.9	9.8	8.6	9.8	8.7	9.0
Mfg. Wages and Salaries	5.0	6.4	5.7	6.7	5.8	7.4	5.8	7.2	6.1	7.0	6.4	6.6
Other—Mfg. Expenses, Research, Etc	4.4	5.7	5.6	6.6	6.2	7.9	6.4	7.9	6.6	7.5	7.1	7.3
Total Cost of Goods	43.2	55.8	48.8	57.5	44.5	56.7	45.3	56.1	48.7	55.5	54.4	56.1
Gross Margin	26.9	34.8	28.2	33.3	26.8	34.2	28.0	34.7	30.6	34.9	33.1	34.1
Expenses:												
Sales Force and Billings	2.7	3.5	3.0	3.5	3.2	4.0	3.3	4.1	3.4	3.9	3.6	3.7
Delivery	3.8	5.0	4.4	5.2	4.2	5.4	4.0	5.0	4.0	4.6	4.5	4.7
Administration and Other Expense	3.2	4.1	3.6	4.3	3.5	4.5	3.5	4.3	4.2	4.8	4.4	4.5
Direct Advertising	5.7	7.4	6.8	8.0	6.1	7.8	6.4	7.9	7.1	8.1	8.6	8.9
Cooperative Advertising	.5	.6	.6	.7	.6	.8	.8	.9	.9	1.0	.9	.9
Sales Promotion	2.4	3.1	2.1	2.5	2.2	2.8	3.0	3.8	4.5	5.1	4.8	4.9
Income Taxes	4.4	5.7	3.9	4.6	3.5	4.5	3.5	4.3	3.6	4.1	3.2	3.3
Net Profit After Tax	4.2	5.4	3.8	4.5	3.5	4.4	3.5	4.4	2.9	3.2	3.1	3.2

APPENDIX 6.

TOTAL TAXES CHARGED TO OPERATIONS

Year Ended June 30, 1966

	$ 000
Federal Sales and Excise Taxes	6,803.9
Business and Realty Taxes	414.1
Income Tax—Federal	2,673.8
—Provincial	578.0
TOTAL TAXES CHARGED	$10,469.8
SALES	$97,041.7
% TAXES TO SALES	10.8%

APPENDIX 7.

PER CAPITA CONSUMPTION OF WASHING PRODUCTS IN 1964/65

The U.K. and the U.S.A. Compared to Canada on an Index Basis
(Canada = 100)

	Canada	U. K.	U. S. A.
Laundry Powders	100	128	173
Dishwashing Liquids	100	113	120
Household Cleaners	100	61	146
Toilet Bars	100	112	126

—Upon resuming at 3 p.m.

Senator A. Hamilton McDonald, (*Acting Chairman*) in the Chair.

The ACTING CHAIRMAN: The witnesses this afternoon are Lever Brothers Limited. Mr. Lockwood, the President, will read the brief to you. With him are several officials of the company and I presume he will introduce them and refer to them from time to time.

Mr. John C. Lockwood, President, Lever Brothers Limited: Mr. Chairman and members of the committee, my name is John C. Lockwood and I am President of Lever Brothers Limited. I have with me Mr. Ronald W. Bates, Vice President of Marketing, and Mr. Peter G. Townley, General Sales Manager. We have here also Mr. Ralph Hart, Marketing Services Manager; Mr. Alan Rae, Head of the Detergent Division; and Mr. Athol P. McDiarmid, Financial Director.

We are pleased to have this opportunity of telling you about the operations of our company and explaining our policies, particularly in the field of marketing. We trust that the information supplied will prove satisfactory but if further figures are required, we will be happy to obtain them for presentation at a later date.

Lever Brothers Limited, a wholly-owned subsidiary of Unilever Limited U.K., was incorporated as a public company in Ontario in 1899. The first factory and offices were completed about that time at our present site on Eastern Avenue in Toronto. During the intervening years Lever has played an important role in the development of the soap and detergent industry and in addition manufactures a range of toilet preparations, margarines, edible oils and fats.

The Board of Directors consists of seven Canadians and one American. Despite my voice, I am a Canadian citizen. Management is almost entirely Canadian. We employ some 1,200 people across the country. The company enjoys a high degree of autonomy in its operations, the parent company limiting its control to a review of annual plans and capital expenditures. No control is exercised by our associated company in the U.S. but we naturally work closely with them in the fields of product development, technical reserach and marketing.

In view of the attention that has been paid recently to the activities of wholly owned subsidiaries in Canada and the guide-lines that have been prepared by the Government, you will be interested to know that we have been publishing our sales and profit results every year since 1958 and we believe that this has been beneficial not only to our own management and employees but to the community in general.

The policy of our company is to meet the requirements of consumers in the fields where our worldwide experience can contribute best to the standard of living of the community. To this end we have developed in Canada an extensive research and development division staffed and equipped to ensure that the products we market benefit from the most up-to-date technology, and this division is backed by the resources of Unilever's laboratories in North America and Europe.

Perhaps equally important is the effort we make in the field of market research. Expenditures on this type of research equal those devoted to technical research. Our expenditure in Canada for all forms of research and development is approximately $1 million a year. To meet the changing requirements of the consumer, we continually survey the developments in each product category and test our findings both in the laboratory and in the housewife's home. In the case of new products, we painstakingly check their appeal to the consumer before

submitting them to the final trial in the market place through carefully chosen test markets. The same elaborate system of testing is constantly applied to existing products to ensure that they are kept up to date in every way. In addition to market testing, our products are, of course, continually subjected to a careful system of quality control.

At a later stage in this brief we express our views on the role of advertising but it should be stated here that we have confidence in the integrity of our advertising claims and these are always based on proven product performance in actual use conditions.

We believe that market research, technical research, quality control and the justification of advertising claims form the basis of our success in building this business to a point where many of our products are household words across the country.

Because it appears that the basic task of this committee is to enquire into and report on the trends in the cost of living in Canada, it would seem helpful to make a comment on the price record of our main detergent products over the period 1960-1966. During this period our main detergent powders increased at an average annual rate of slightly more than one per cent and our principal liquid detergent, Lux, actually decreased by some 12 per cent—this despite considerable increases in material costs and, of course, labour. This compares with an increase of 14 per cent in the over-all cost of living index.

FINANCIAL

In the six year period ending on December 31, 1965 we have been faced with a declining or near static profit level as a percentage of gross sales, as will be seen in Exhibit I. In 1965 gross sales volume almost reached the dollar figure of five years before and, in the interim, we have been hard pressed to maintain the profit margins of 1961 against the steady increase in the cost of doing business. We have managed to do this by the development of automation in the plant, by use of the computer in the formulation of our products and the handling of routine data, and by the maintenance or reduction of the level of our promotional and advertising expenses. It should also be noted that the low profitability of our margarine business during the years 1963 through 1965 has had a marked effect on our corporate profits.

MAJOR COMMODITIES

The cost breakdown of our four principal commodity groups is shown in Exhibit II. Costs and expenses directly related to each group have been allocated under each heading. However, certain expenses, such as selling and administrative, cannot be attributed directly to commodity groups. These expenses we have allocated on the basis used for our own internal financial statements. You will notice there the significant losses that we have been carrying in the margarine business.

ADVERTISING

Lever Brothers is principally in the business of selling high quality branded merchandise for national distribution. While we sell our products to retail organizations, large and small, the fact is our real customer is the consumer. It is essential to the success of our enterprise that we communicate the attributes of our products to the housewife, advising her of the qualities, benefits and improvements which these products have to offer. Over sixty years of experience have shown us that by far the most economical way we can accomplish this is by advertising. Indeed in this age of self-service in supermarkets there is no other practical way for us to communicate with and pre-sell all the potential buyers of our products in all parts of the country. We spend large amounts of money and time on the development and the manufacture of products which our research tells us the consumer wants and this effort would be wasted if we were to stop

short at that point. We must then manage to tell them what we have to sell, whether it be a new product or an improved established product, and try to persuade them to buy.

We agree wholeheartedly with a statement made recently by the U.S. Secretary of Commerce, John T. Connor, who said that "Advertising is an absolutely indispensable element in the economic mix of the free enterprise system." A free economy presupposes freedom of choice for the consumer and this freedom of choice can only be real if she is made aware of the alternatives from which choice can be made. Freedom of choice also includes freedom to try to persuade others to your way of thinking, and, for us, advertising is not only our only means of informing the consumer how she may exercise her choice but also of asking her to exercise it in our favour.

Fundamentally, a company must have good products—products which are acceptable to the consumer not only functionally but in terms of other factors such as relative quality and value. This is particularly true for products such as ours, which are subject to frequent repeat purchases, because the consumer has ample opportunity to compare performance against claims and the wants she seeks to satisfy by using the product. No amount of advertising will persuade a consumer to purchase a second time an inferior product which has disappointed her.

Advertising is certainly one of the costs of a product but it is a cost which brings savings in its wake. On the distribution side it speeds up the turnover of stock and thus makes lower retail margins possible, without reducing the retailer's income.

On the manufacturing side it is an essential factor in making large-scale production possible, since mass production requires mass distribution and mass distribution requires mass demand. The all-important result of large-scale production, of course, is that it leads to lower unit costs which are reflected in prices charged to the consumer.

Large-scale production performs this same useful function in the case of a newly-developed product as well as in the continuing manufacturing of an established product. Advertising, too, is equally necessary in both these instances. For the new product, only advertising can create the consumer demand that must be anticipated before the product can obtain a position on chain store shelves. For the established product, advertising is required to sustain the demand and thus protect the product's shelf position.

A great deal of attention is paid to the determining of how much to spend on advertising our various products. We are more anxious than anyone outside our company that we spend not a nickel more than is necessary. At the same time we are conscious of the even more costly danger of spending less than is necessary to achieve the objective. Very often research is employed to help in determining the optimum amount that should be spent on advertising for a product. Results from test markets, where different levels of advertising are tested, often provide the basis for decision in the case of a new product.

We stated earlier that advertising could not make an inferior product successful in the market place. However, inferior advertising, and less than the required amount of advertising, will seriously prejudice the chance of success of even a very superior product. Consequently we spend much effort and money to ensure, through pre-testing research, that our advertising will be effective and efficient.

Exhibit III shows the actual amounts spent on advertising from 1960 through 1965 and their relationship to sales. You will note that our advertising expenditures have not increased during this period despite substantial increases in the cost of advertising media.

PACKAGE WEIGHTS/VOLUME

The weights and volumes of our detergent products have their origin in the establishment of a suitable consumer price level and the desire to utilize extensive packing equipment which has been maintained through the years and which is difficult and costly to change.

For example, powdered synthetic detergent packages today are based on the package sizes used for granulated soap which were found to be convenient and practical when soap was widely accepted as a laundry detergent. The same packing and filling methods and machinery are used today for synthetics. Liquid detergents, which were developed later and which replaced powders in the dishpan, were established to be priced competitively with powders on a usage basis.

Powdered and liquid synthetic products today generally have standard size packages and similar weights and volumes for similar types of products. Individual products are packaged in more than one size for a number of reasons:

(1) Different families have different needs and different uses for the products; a single size is not convenient for every family; single people and small families prefer small packs; sometimes storage space is limited.

(2) A variety of prices is desirable depending on the frequency of pay days, and differences in shopping habits.

(3) There is a distinct preference for different sizes of packs in different regions of the country; not all sizes are stocked in every region.

(4) Larger sizes offer savings to the consumer.

If you will look at Exhibit No. 4, you will see that we have given a typical example, using our product Omo, of the savings available to the consumer when she buys the larger sizes. We show that a home which uses 40 ounces of Omo per week for laundry can save $7.07 per year by buying the 80-ounce size rather than the 20-ounce size. That is an important factor in the buying habits of the housewife.

We have been conscious of the demand expressed by some consumer associations and other groups for so-called "even" weights and matching pricing for many types of consumer goods products. It is good business for us to be sensitive to changing consumer demands and we decided to test the public resolve to favour a product with these characteristics. We were confident that the demand for "even" weights would give us a marketing success.

In 1962 we market tested a laundry detergent product called Four Square. The product was sold in three sizes of 1 lb., 2 lbs., and 4 lbs., priced attractively (at 35 cents per lb. for the small size and with savings per lb. on each of the larger sizes).

It was advertised at a moderate level but because of its low price, understandably it was devoid of special price reduction offers or other promotional devices. Although we had high hopes for success, and Mrs. Plumptre, who was then president of the Consumer Association, asked her members to do everything possible to encourage the purchase of this product in this test market, it turned out to be an outstanding failure, and a very costly one for us, I can assure you.

During 1965 and 1966 we tested another form of this approach for our product Surf in the Province of British Columbia, a large and important marketing segment of the country. For years a major appeal of this brand has been its great value resulting from low pricing (its weight and volume have been identical to those of similar products). Our intention was to determine if we could achieve equal or greater market success with the product by offering its value in a greater volume of product rather than lower price.

The product was called Square Deal Surf—"No gimmicks. 20 per cent more powder. Guaranteed 3 pounds 3 ounces net weight.") Pricing was put in line with that of the dominant brands in the market and the weight of each size was increased by 20 per cent over the weights of these brands. The product was extensively advertised but had no "price-off" offers. In fact, this aspect of the brand was advertised as one of its features—"No gimmicks." Once again we were faced with abrupt failure and were obliged, at considerable cost, to reinstate the old form of the product in the British Columbia market.

Standardized, "even" weights for powdered detergents will not be meaningful to the consumer since detergent is not a commodity and virtually no two products are more than similar. Our sizes are based on a standard volume rather than weight because of the different nature of the products and the effect that density can have on them. Package sizes in the industry are standard so that the consumer can measure relative value and cost, brand by brand, on the basis of volume or performance.

Detergent formulas differ greatly for different uses. A comparison can be made between our two products Omo and 'all'. Both are "heavy duty" powdered detergents designed for laundry use but there the similarity ends. Omo is full sudsing, designed for use in conventional wringer washers, while 'all' is more concentrated, of higher density, a completely different formula with a controlled sudsing characteristic, designed for use in automatic washers. Standardized weights for these two products would result in the need for more package sizes than we currently use.

Thus, a result would be a great proliferation of package sizes. Rather than reducing the number of packages, weight standardization would result in different package sizes for each product that had any variation in formula density. It is obvious how much inefficiency and greater expense to the manufacturer—and the consumer—would be involved in imposing such standardization.

The implication of controlled standardization carries with it the imposition of rigid rules, a static position without change and variation. This type of rigidity discourages innovation and development and certainly would do so in this or any consumer goods field where the consumer has come to expect and demand improvement.

Exhibit V shows the trend of our packaging costs in recent years. Most of our products use basic utilitarian packaging, although it has been a struggle to keep packaging costs down. The figures indicate the degree to which we have been able to control this cost through ingenuity, innovation and careful purchasing.

A list of our soaps, detergents and cleaners, indicationg package sizes and weights, is attached as Exhibit VI.

PRICING

In the list of suggested topics supplied by the committee, we were asked how we determined that our sales prices are competitive.

It is a long-standing company policy to have our field selling force across the country constantly on the alert to ascertain from our customers any changes in the prices of competitive products at trade or consumer levels. In addition, we employ outside agencies to corroborate the findings of our salesmen. The following is a summary of the reports which are prepared to keep us abreast of price activity:

(a) A "Competitor's Activities Report" is prepared by each salesman in the field the moment he spots pricing or promotional activity, and is forwarded to his division sales office. Once complete details are known, a copy of the same report is sent on the head office for appropriate action (see Exhibit VII).

(b) In the margarine field, a commodity subject to frequent price fluctuation and weekend "specialing" by the retail trade, a weekly report of our own and competitors' prices is prepared in eight selected cities (see Exhibit VIII).

(c) At the end of each quarter, a comprehensive summary of trade cost and consumer selling prices is prepared in each of our five geographic sales divisions. This report shows a range of consumer prices and margins in effect for each brand.

(d) An independent research company reports on each of our main product categories on a bi-monthly basis, date supplied including average consumer selling prices for our own and competitive brands. This information is provided on the basis of total Canada, our sales divisions and by chain and independent stores. In addition, they provide dealer buying prices excluding chains.

(e) Furthermore, we purchase, from time to time, pricing information gathered by another independent service.

The committee also asked to be provided with sales prices of some of our principal products during selected periods in 1965 and 1966. This information is submitted as Exhibit IX. It is interesting to note that during the last eighteen months our principal synthetic detergent powders, Breeze, Omo and 'all' have only increased in price to the trade by 2 to 3 percent.

The question is also raised: "When volume sales are invoiced, is the billing net of all discounts, or gross less discounts?" in our soap and detergent business, discounts are built into our pricing structure in the form of a graduated schedule of prices geared to quantity. Our best price applies on an order of 400 cases or more shipped to a single customer.

We do not employ any discounts of the volume rebate type used in some industries. In fact, our only discount is a cash discount of one per cent 15 days, designed to speed the payment of invoices. Invoices are prepared on a gross basis and the customer calculates and deducts the cash discount where earned.

PROMOTIONS

We use many forms of sales promotion such as price off, premiums, coupons and we have found these to be sound and effective means of inducing consumers to try our products. Furthermore, we believe national brand manufacturers use these promotions honestly and with no intent to deceive the public.

"CENTS OFF" OFFERS

When we offer 5 cents off a product, we do just that, we reduce our regular price to the trade by the full amount and mark the label accordingly to ensure that the saving will be passed on to the consumer. In fact, in 1965 by this method we gave consumers a total saving of almost $2 million on our products in the form of temporary 'cents off' deals.

The question is often heard, "Why doesn't the manufacturer just reduce the regular price instead of making 'cents off' offers?" and our answer is that we have tried this and it doesn't work as a method of getting more people to buy a product. In most cases, the average price reduction would not be great enough to be effective and the success of the 'cents off' offer lies in its temporary nature. The question is often raised of why we go on making these offers on the same products, and the answer is that the products do not remain the same. To attract consumers, we make a constant effort to improve our products; for example, in the last five years there have been five changes in Breeze, three changes in Lux Liquid and three changes in Lux Toilet Soap. Some of the changes have been minor, but they add up to big improvements.

We also use 'cents off' offers to attract those consumers who are not loyal to a single brand but who may have found three or four brands which meet their particular needs. These consumers, who form a recognizable segment of any market, will exercise their choice on the basis of the best bargain available, and so we offer 'cents off' reductions from time to time in order to get a share of this business.

PREMIUMS

We find that premiums can also be used effectively to get consumers to try a product, or to continue to buy it.

The complaint is sometimes heard that consumers are forced to buy unwanted premiums, and our attitude is that it would be sheer folly for our company to try to force anything on the consumer. In most cases we offer the premium free to the consumer and in any event she is completely at liberty to choose an alternative size or brand if she doesn't want the premium.

We occasionally use self-liquidating premiums for which the consumer sends in an amount of money together with a label or box top from one of our products. In general we handle neither the money nor the premium directly, but of course we do stand behind the offer and guarantee the consumer satisfaction.

We make greater use of temporary on-pack premiums and we find that, if carefully selected, these are more attractive to the consumer than a 'cents off' deal of equivalent cost to us. In fact we carefully measure the appeal of premiums among representative groups of consumers and in actual store tests, and normally use only those that consumers prefer to a price reduction by a significant margin.

We also use permanent in-pack premiums in one or two products and we have found over the years that there is a definite section of the market that prefers to buy detergents with premiums. This preference is especially strong in the province of Quebec and in the Atlantic provinces. We have sold Breeze successfully for almost 15 years with towel and face cloth premiums packed inside, and the committee may be interested in our experience when we tried unsuccessfully to sell the product without premiums. Prior to 1961 Breeze was sold in two versions, blue and white, both containing identical premiums. In 1961 the premiums were withdrawn from the white product—we put "No premium" on the new box—and the weight and price of white Breeze were adjusted to coincide with those of leading non-premium brands. In this situation where the housewife was able to exercise a free choice for the same product with or without a premium, the sales of the white product without a premium dropped so rapidly that we were forced to take it off the market in 1963. During the same period there was a corresponding, though not proportionate, increase in the sales of blue Breeze with premiums. Obviously the consumer recognized the greater total value of detergent plus premium, even though she realized she had to pay slightly more for the combination than for a package of detergent alone.

COUPONS

Even with the most effective advertising, it may take some time and many exposures before the average potential consumer is tempted to buy a new or improved product. We have found coupons to be effective in speeding up this process by offering a financial incentive to try the product. In 1965 we issued to consumers coupons with a total face value of $1,500,000.

We believe that in a free economy the consumer should be free to choose and the manufacturer should be free to try to persuade her to choose his product. This can be done by advertising and it can sometimes be done more effectively in the short term by promotions. To restrict advertising or to restrict promotions would be to force manufacturers inevitably to use more costly and less effective methods of attracting the consumer.

In this day of low-cost mass retailing the adage "Build a better mousetrap and the world will beat a path to your door" is simply not true. The manufacturer might be able to persuade the retailer to stock his better mousetrap, but unless he quickly creates an awareness of the product and persuades enough consumers to buy it, it won't stay on the retailer's shelves for long. He could do this by personally visiting consumers in their homes to demonstate the merits of his product; but he can achieve the same result a great deal more cheaply by advertising and by intelligent use of promotions. Finally we believe any restriction of promotion would inevitably tend to consolidate the position of dominant manufacturers by denying new or small competitors the weapons they might otherwise use to enter a market, or to improve their position within it.

PRIVATE LABELS

Our policy is to supply private label products where we can do so at a profit, and provided that we have spare manufacturing capacity. Given these conditions we believe it is logical to supply such products to retailers or wholesalers who are determined to sell them. Because this volume offers us the possibility of using up spare capacity at no additional operating and selling cost, we are able to sell the products at substantially reduced prices. Furthermore, our selling prices of private label are not calculated to recover research and development expenses nor marketing research costs which are essential to the growth and survival of our business, and which must be recovered in the prices of our own brands. It cannot be too strongly emphasized that technological progress and product improvement depend entirely on the national brands' manufacturer—not on the seller of private labels.

Our company is characterised by a strong and continuing concern for the consumer. We spend substantial sums every year on all forms of market research in order to determine how people use existing products and what they think of them. We also spend heavily on research and development to develop new or improved products that will better satisfy consumer needs.

Our private label sales represent less than 2 per cent of our total detergent business. While these products are of good standard quality and represent good value, they are manufactured to a price and do not perform as well as our best national brands. As a matter of policy we do not incorporate our best technology in private labels. Our national brands such as Omo or 'all' provide significantly better performance in whitening and brightening fabrics and in soil removal under difficult conditions or in hard water. They also provide reserve cleaning power for the second and third load in the washing machine.

Our research shows that these differences are generally discernible by consumers. This is further confirmed by the fact that an overwhelming majority of consumers continues to buy national brands of detergents even though private label products have been available and have been strongly promoted by supermarkets for several years.

"UNITS OF CLEANING POWER"

An effective detergent must be capable of performing several functions, each of which is an integral part of the detergency mechanism but none of which individually provides for adequate performance. Among these are the ability to remove particulate mineral soils, to remove and emulsify oily and other organic soils, to hold soil in suspension in the wash liquor, to prevent dyes from bleeding and transferring from one garment to another. Certain of these properties may be measured under rigidly controlled conditions of laboratory tests. Others cannot, and must be judged subjectively. Attempts to assemble the results of these tests into a composite "units of cleaning power" index inevitably lead to an incomplete and misleading assessment of the product under test.

The conditions under which detergents are used in the home are variable and complex. Water hardness, an important factor in performance, varies widely across the country. The nature of soil is different in rural and urban areas, and is further complicated by the occupation and working environment of the garment wearer. The laundry load is comprised of a rapidly increasing variety of synthetic fabrics, blended fibers, resin finished fabrics and new structural features in fabric and garment design. Differences in washing machine design and principle of operation add yet another variable.

Finally, variations in washing habits and practices such as the length of wash cycle, the number of loads washed per water change, the size of load in relation to the amount of detergent and water, the temperature of the water and the use of bleach or other additives—all have a bearing on the quality of the wash.

It is highly improbable that an index could be developed which would encompass the technical criteria for detersive action, the complex and variable conditions under which detergents must perform, and the vagaries of human preferences and prejudices, and still provide a useful guide to detergent quality or value.

On the basis of the foregoing considerations we do not believe it is feasible or possible to identify or otherwise adequately describe the effectiveness of a detergent in terms of "units of cleaning power."

NEW PRODUCT DEVELOPMENT

It is the nature of our business that continuing change and improvement are an accepted way of life. The needs and demands of our real customer—the Canadian housewife—are constantly changing with improving standards of living marked by the development of new fabrics, new and improved methods of laundering, and many new types of materials to be cleaned and protected in her home. In fact, some of these new methods have been made possible by developments in our industry. Can you imagine using old-fashioned soap chips in a modern automatic washer? The results would be far from satisfactory.

We are dedicated to innovation; to change that leads to improvement. The development of new products and new methods is essential to the successful growth and indeed, the survival of our business. But these products don't just happen. The careful research that goes into their development, both in the laboratory and in the market place, is very costly. We spend large amounts of money and time on the development and manufacture of new and improved products which, through careful research, consumers tell us they want and need. Many of them are unique and make a genuine contribution to improvements in the standard of living.

It might be interesting to review one example of this type of development that is current with our company and to examine the investments and risks we face in attempting to find acceptance from Canadian housewives.

We call the product Dual and we believe that it is a new idea in household cleaning, particularly for use on tile floors. The formula involves an emulsion of non-ionic detergent and wax. Dual cleans floors as well as any other powder or liquid household cleaner now on the market, but it also offers the advantage over other cleaners of leaving the floor, when dried, with a beautiful, bright shine without buffing.

We conducted an independent consumer research study in 1965 which revealed a considerable need and desire for such a product. We then faced the problem of developing this product and communicating its unique benefits to housewives.

In the research and development of our new products, we continually draw on the knowledge of our researchers in the many Unilever laboratories throughout the world. A product similar to that which we required in this instance had been developed and thoroughly and successfully consumer tested in the United Kingdom and several European countries. Our scientists adapted this formula to Canadian conditions and requirements, incorporating Canadian ingredients. Based on the results of extensive testing in our own laboratories, we felt that we had developed the best possible version of the product for Canadian needs. A great deal of inventive work went into package designing, advertising creation and other elements that could make this new product recognized and appreciated by consumers.

It was now necessary to discover whether we could communicate the unique benefits of this product to the housewife and, once this was accomplished, whether she felt that the product fully satisfied its claims and her requirements.

On this basis, the product was launched into two city test markets in April of 1966. In order to inform the consumer of our offer and to prove to her that this product would actually support its claims and meet her stringent requirements, it has been necessary to spend heavily but efficiently on well-tested effective advertising and sample distribution. Extensive consumer acceptability research and product evaluation followed the initial advertising and sampling programme by approximately three months and will continue throughout the test marketing period.

This testing has been and will be a long and costly process. For example, because of the bi-cultural nature of our country and the diversity of social customs and satisfaction requirements resulting from this bi-culturalism, it is necessary to duplicate all this testing in English and French test cities. The product and consumer research discussed above will cost Lever Brothers well in excess of $150,000 and we can lose all this investment if the housewife decides that she really does not need or want this product. The national expansion of the product, providing that it is successful in test, will cost some $250,000 in net loss in the introductory year.

This is the investment that we must make to ensure that housewives get to know about this product and get a chance to try it to determine if they want to use it on a continuing basis. If it turns out that our test market results are favourable but not projectable, we can lose our total investment. It is a risk that we must take from time to time in each of our product categories in order to remain progressive and competitive and it indicates the kind of costly development that must go into new products in the consumer goods field.

It seems appropriate to emphasize here the vital contribution of advertising and promotion to the development of new products and their successful introduction to the public. One of the critical judgments which must be made in connection with any new product is the price at which it will be offered to the trade and ultimately to the consumer. It would have been possible for us, for instance, to project a modest volume of sale for Dual, in which case we would have set the selling price at, say, 89 cents a bottle, in order to recover our initial investment in a reasonable two to three year period. On the other hand, we could aim at a higher volume which would enable us to sell the product at 61 cents a unit and recover our costs in the same period. In the case of Dual the latter course was chosen, but it was only made possible by our ability to use advertising and sales promotions skillfully and freely in order to create consumer awareness and to generate consumer trial. This is a clear illustration of the way in which advertising, by making large-scale production possible, does reduce prices.

MARGARINE

Although this brief has dealt mainly with our soap and detergent business, we are conscious of the committee's basic interest in food prices, and its concern for ways in which the consumer can get good value for her food dollar. We think it is timely to consider the situation of margarine, and we offer you our views as a leading manufacturer of this product.

Margarine is a highly nutritious food that offers the consumer excellent value for money. It is also an important user of Canadian raw farm products. Our market research studies show that this food is highly appreciated and desired by a large percentage of Canadian consumers. It is therefore remarkable that the sale of margarine continues to be hampered by federal and provincial restrictions, the purpose of which is to render the product less attractive and more expensive to the consumer.

For example, the federal Government imposes a tax of 11 per cent on margarine, the only basic food product in Canada to be so taxed. (It is interesting to note that dog and cat foods are not taxed, nor are such luxuries as truffles.) This tax adds 4.4 cents a lb. to the retail price of our leading margarine brand.

Some provincial governments impose further restrictions. Seven provinces dictate that margarine must be sold either white or in a deep yellow colour which the housewife finds unacceptable for certain purposes. In order to satisfy all her needs, we must therefore provide a separate white product which she has to colour herself to the desired degree. This adds to our manufacturing costs and results in an unnecessary multiplicity of packs which increases costs of handling and storage for the retailer as well. In Newfoundland and British Columbia where no colour restrictions exist, the duplication of packs is avoided.

Despite a generous price support and subsidy programme—costing $22.00 per family per year, or the equivalent of a week's grocery bill—the dairy industry is unable to supply its share of Canada' stable and cooking fat needs, and so once again Government is faced with the necessity of importing butter. We are confident that we can provide a better answer than imported butter provided the consumer is truly permitted to exercise her right to freedom of choice. And we are equally confident that the dairy farmer can continue to find a demand for his product from which he may obtain a worthwhile profit. Surely the consumer merits this freedom of choice. Removal of the sales tax on margarine is an important step in lowering food costs for the families who need it most. This simple move would save Canadian consumers on their annual food bill a total of more than $5 million.

CONCLUSION

We should like to emphasize these facts:

1. During the period 1960-1966 our main detergent powders increased in price at an average rate of slightly more than 1 per cent a year, and our principal liquid detergent, Lux, actually decreased by some 12 per cent despite considerable increases in the costs of materials and labour. This compares with an increase of 14 per cent in the overall cost of living.

Since 1960 there has been no upward movement in profit margins and none in net profit of the company.

2. While we sell our products to retail organizations, the fact is our real customer is the consumer. It is essential that we communicate the attributes of our products to the housewife and our experience has shown us that by far the most economic way we can accomplish this is by advertising.

Advertising is an essential factor in making large-scale production possible, resulting in lower unit costs which are reflected in prices charged to the consumer.

May I add that during the past 18 months our main detergents increased only 2 per cent to 2½ per cent.

We pay a great deal of attention to the determining of how much to spend on advertising our products—to ensure that we spend no more and no less than is needed to achieve the objectives. That we are succeeding in improving the efficiency of our advertising activities can be seen in the fact that we have not found it necessary to increase our total expenditures during the 1960-1965 review period, despite substantial increases in the cost of advertising media.

3. We use various forms of sales promotion, such as price off, premiums and coupons, and we have found these to be sound and effective means of inducing consumers to try our products. In 1965 we gave consumers a total saving of almost $2 million on our products in the form of temporary 'cents off' deals. We use permanent in-pack premiums in one or two products and have found over the years that there is a definite section of the market that prefers to buy detergents with premiums.

To restrict advertising or to restrict promotions would be to force manufacturers to use more costly and less effective methods of attracting the consumer.

4. Powdered detergents today generally have standard size packages but standardized "even" weights would not be meaningful to the consumer since virtually no two products are identical.

Rather than reducing the number of packages, weight standardization would result in a great proliferation of package sizes, with different sizes for products of varying density. The result of weight standardization would be production inefficiency and greater expense to the manufacturer and the consumer.

5. We supply private label products where we can do so at a profit and provided that we have spare manufacturing capacity. Because private label volume does not involve additional operating and selling cost, nor does it require any research or development expenditure, we are able to sell the products at substantially reduced prices.

Technological progress and product improvement depend entirely on the national brands' manufacturer—not on the seller of private labels.

Our private label sales represent less than 2 per cent of our total detergent business. While these products are of good standard quality, they are manufactured to a price and do not perform as well as our best national brands.

6. The development of new products and new methods is essential to the successful growth and survival of our business. Over the last five years we have averaged an investment of over $650,000 per annum in new product development.

7. Removal of the 11 per cent Federal Sales Tax on margarine would be an important step in lowering food costs for the families who need it most. This single move would save Canadian consumers a total of more than $5 million annually.

May I add, Mr. Chairman, that the remarks in this brief apply, as do the figures, to the main Lever business. We do have other interests.

The Acting Chairman: Thank you very much, Mr. Lockwood. Mr. Scott is the first name I have on my list. Would you like to proceed, Mr. Scott?

Mr. Scott (*Danforth*): Mr. Lockwood, you were here this morning and heard our discussion about suds. You are sort of the rubber in the bridge act, because we seem to have received what I think are two different stories. I was wondering if you could give us the benefit of Lever's opinion as to whether or not the suds problem, which we were debating this morning, really has anything to do with cleaning power.

Mr. LOCKWOOD: I would be interested to give our opinion, Mr. Scott. We were not here when Mr. Beeson made his statement and I have not actually seen the text. However, listening to Mr. Williams of Procter and Gamble this morning, I think we would say that, in general, we would go along with the position that he took, namely, that in the development of synthetic detergents, sudsing is a natural and inevitable part of the formulation, certainly during the early stages, and even up to quite recently, in the manufacturing of the synthetic detergents. There is no doubt that the presence of suds on the water signals the activity of the detergent in the wash water.

A few years ago we ourselves continued the development of an exciting new type of product called 'all'. This was created from entirely different raw materials which did not produce any suds and was particularly suitable for use in the automatic washing machines and in fact is perfectly good in any washing machine. I think that is the situation or the position we would take.

Mr. SCOTT (*Danforth*): You are saying that in the case of 'all', you developed a detergent without suds?

Mr. LOCKWOOD: Yes, with very little suds.

Mr. SCOTT (*Danforth*): Which is effective?

Mr. LOCKWOOD: Particularly effective. So effective that we say it "outcleans them all".

Mr. SCOTT (*Danforth*): That is where we start with these commercials.

Mr. LOCKWOOD: We have had a few around this room, so I thought I should get my plug in.

Mr. SCOTT (*Danforth*): We are not objecting to that. You are saying that is a detergent that cleans well without suds?

Mr. LOCKWOOD: That is correct.

Mr. SCOTT (*Danforth*): Therefore, suds is of no value?

Mr. LOCKWOOD: Suds do not matter except that historically, in the development of synthetic detergents, they played this role of signalling the effectiveness. But with this development of non-ionic ingredients and this entirely new chemical buildup, they are not necessary, although the housewives, the majority of whom are using the wringer washers still, are used to them and like to see the suds.

Mr. SCOTT (*Danforth*): You mean, you are closer to Mr. Beeson than Mr. Williams on that. This was, at least what we took from his testimony, that they did not really matter nowadays with modern detergents, and the only reason they are in there is that the housewife needs them?

Mr. LOCKWOOD: That is not what I said. I said they were a natural part of the development of synthetic detergents. When detergents were developed after the war, the ingredients produced a substantial sudsing effect, which housewives wanted because they were used to the old suds of the soap powders and the sudsing effect of the synthetic detergent was a great attraction to them. But over the years of research it is now possible to develop a synthetic detergent that is equally effective but which does not have suds. You could conclude that some women prefer detergents with suds, especially those housewives who are using the wringer washers. Others who are using the washing machines find that the non-sudsing detergents are just as effective.

Mr. SCOTT (*Danforth*): Does the sudsing add anything to the cleaning power, other than the psychological value?

Mr. LOCKWOOD: It has a psychological effect undoubtedly, but the suds themselves that rest on the top of the water do nothing of course, as Mr. Williams said. It has nothing to do with the cleaning, but it signals the activity of

the detergents in the water. I am not a chemist but a chemist could explain that in some detail, if necessary.

Mr. SMITH: As a supplementary, we had it from Mr. Beeson recently, when he was talking about the addition of detergents to a material, that would reduce the congestive effect that detergent suds have on sewage disposal plants. Are you presently satisfied in that regard for your product?

Mr. LOCKWOOD: Our products are being manufactured by a biodegradable active formula that, under proper sewage conditions, reduces to practically nil that effect.

Mr. SMITH: On that point, Omo is sudsy, and 'all' is—

Mr. LOCKWOOD: Low sudsy.

Mr. SMITH: Does 'all' go through a sewage disposal plant with less interference than Omo?

Mr. LOCKWOOD: Now that Omo is manufactured from a biodegradable base there is very little difference.

Mr. SMITH: And before that?

Mr. LOCKWOOD: Before that, 'all' had less effect than Omo.

Senator INMAN: Does the ingredient that makes the suds add to the cost of the detergent. If it has no cleaning value, why put it in?

Mr. LOCKWOOD: The sudsing of synthetic detergents was a normal automatic outcome of the composition of the formulation. The formulation suds under certain water temperatures. Therefore, it was an integral part. We have now found a way of producing another type of product which is equally effective, which does not sud.

Mr. SCOTT (*Danforth*): You saw the experiment given to us this morning?

Mr. LOCKWOOD: Yes.

Mr. SCOTT (*Danforth*): The impression it purported to give, at least to me, is that the cleaning power is gone when the suds disappear?

Mr. LOCKWOOD: I think it was explained this morning, Mr. Scott, that there is a difference in the detergent action in a dishpan compared to the detergent action in a washing machine. It is true that in the dishwashing operation with a detergent, sudsing does most certainly indicate the remaining effectiveness; and when all the suds are gone the effectiveness has, to all intents and purposes, disappeared.

Mr. SCOTT (*Danforth*): So you would say that when the suds vanish, so does the cleaning power?

Mr. LOCKWOOD: To a large degree. It is not exact, you cannot make an exact statement of that sort, but certainly the end result of that situation is that as the suds disappear so does the grease-cutting effectiveness of the water, the detergent in it is lessened to a point where it has practically no effect.

The Acting CHAIRMAN: From the demonstration this morning, I presume that when the top of the sink was all covered with these suds or foam, if you took a plate and immersed it in this water and shook it around and took it out again, it would be clean. When all the suds had disappeared, if you took the same plate with an equal amount of dirt or grime on it and put it in the water, with no suds, and took it out and took a dishcloth and washed it all off, it would still be clean, whereas if you just shook it around in the water and then took it out, it would not be clean?

Mr. LOCKWOOD: I think that is a fairly accurate statement of what happens, because the detergent effect has been practically absorbed by the grease in the dishpan at that stage.

Mr. Scott (*Danforth*): You place a great deal of emphasis on advertising in creating market demand, but your advertising budget appears to be about one-half of Procter and Gamble and one-half of Colgate. Is there any special reason for that?

Mr. Lockwood: I have not the Procter and Gamble advertising figures with me. As you can see, we spent in 1965 about $4½ million on advertising, which does not include the co-operative advertising. I do not have the other figures with me at the moment. Can you give me the Procter and Gamble figures?

Mr. Joyal: Yes, 14.3 per cent in 1966.

Mr. Lockwood: Are you talking, Mr. Scott, about percentage of sales or total dollar expenditure?

Mr. Scott (*Danforth*): Percentage.

Mr. Lockwood: Ours was running 7.6 per cent.

Mr. Joyal: Theirs include advertising promotion.

Mr. Lockwood: I do not think we are talking about the same thing. We are talking about what we call media advertising, that is, television and radio, whereas his figures include other expenditures.

Mr. Joyal: Sales promotion, cents off and gimmicks.

Mr. Lockwood: We spend another $1.4 million in promotions of various sorts.

Mr. Scott (*Danforth*): Do you put any estimate on the monetary value to you of American advertising of Lever Products?

Mr. Lockwood: Yes, it is indeed of importance to us, in its overflow value. Mr. Bates could speak clearly on it.

Mr. Ronald W. Bates, Vice-President, Marketing, Lever Brothers Limited: I could not give an accurate estimate of the value this represents to us. Certainly it is an important factor in any consumer goods product in Canada. The existence of a similar brand across the border in the United States, whether it is heavily advertised or not, can make a definite difference in the success of that brand in Canada.

Mr. Scott (*Danforth*): In your interesting section on margarine, on page 36, you said that the removal of the tax would result in a saving to the consumer of $5 million.

Mr. Lockwood: Yes.

Mr. Scott (*Danforth*): Our experience so far has been that reductions given by people such as yourselves to retailers are not necessarily passed on.

Mr. Lockwood: Mr. Scott, I must suggest that in a highly competitive market such as this, where margarine is competing with butter, a reduction of the sales tax would undoubtedly be passed through almost in its entirety.

Mr. Scott (*Danforth*): We have no way of establishing that in the case of your prices off deals, where we have gone into the supermarkets and found the figures all so juggled around on the shelves that it was impossible to know. How can you guarantee that this would be the case.

Mr. Lockwood: We cannot, of course, but our whole energy is devoted through our sales organization across the country in an endeavour to insure that price reductions of this sort are passed on to the consumer. I would say that in general our customers do this. Now, there are obvious cases where it does not happen, but in the broad generality of my experience of 20 years in the Canadian market I have seen very few cases where this kind of price reduction has not been passed on to the consumer.

Mr. Scott (*Danforth*): Do you feel that this is a deliberate act of discrimination by the Governments involved in favour of the farmers?

Mr. Lockwood: It obviously has that implication, Mr. Scott. There is no doubt about it. We as manufacturers of a Canadian product manufactured from Canadian raw materials from the soy beans grown by Canadian farmers find this position illogical and unfair to the people who most need the product.

Mr. Scott (*Danforth*): Have you made representations to the Government to have this removed?

Mr. Lockwood: We have indeed.

Mr. O'Keefe: How much would the 11 per cent sales tax mean on one pound of margarine?

Mr. Lockwood: It comes to 4.4 cents per pound of margarine. Margarine sells anywhere from 25 cents to 55 cents per pound, depending on the quality of the margarine. If we take the average price, it will be somewhere around 35 cents, so that the tax on this amount is a very significant factor indeed.

Mr. O'Keefe: If you were to take five cents away from 35 cents a pound on margarine, then that would be tremendous.

Mr. Lockwood: That is a tremendous advantage. It is 11 per cent.

Mr. Bates: Our calculation was based on the existing price to the trade of our leading brand of margarine, which is about 37 cents per pound at the moment. Now, the 11 per cent sales tax on top of that means a 4.4 cent increase at the retail level after the retailer has taken his normal mark-up.

Mr. Scott (*Danforth*): We have had a lot of discussion in the committee about private versus national brands. The people who promote private brands tell us that they are just as good as national brands, but the people who manufacture national brands tell us, as you have done, that that is not so. Could you give me an example of a private brand compared with one of your national brands and tell us what you take out of the private brand in order to make it inferior?

Mr. Lockwood: Yes, we would be very pleased to do that. May I have that package of Domino, please? Here is a private label that we manufacture for Dominion Stores, one of our most important customers, and here is a package of Omo. Now, these two products sell at considerably different prices. Omo is a nationally advertised and nationally promoted product on which we have to recover, as we said in our brief, a tremendous investment in research, manufacturing and marketing, et cetera. Because we have the capacity, we are able to provide Dominion Stores with a very good standard of average detergent, but it does not have the advanced, sophisticated elements which we build into Omo.

Mr. Scott (*Danforth*): What does it not have? What did you take out of it?

Mr. Bates: I think it would be an oversimplification, Mr. Scott, to say that we take something out of it. The point is that a detergent is a rather sophisticated balance or combination of a host of chemical ingredients. It is possible to combine all of these ingredients in certain proportions and get better or poorer performance. One of the major parts of a detergent is what is called the active system, that is, the chemical composition which is also referred to as the "surfactant". Then there are certain builders that are put in, phosphates primarily, and, depending on the proportion in which these are combined, you might get better or worse performance. In addition to that, we add to all of our detergent products fluorescent dyes or brighteners. You have probably heard about these from other witnesses. They are a relatively recent development in the detergent industry in the last few years. These brighteners can improve significantly the whiteness and brightness of washed garments.

Again, improved performance can be obtained by different combinations of these dyes. They themselves can be quite expensive to the manufacturer, however. In making up a detergent to a price, therefore, as we have for Domino, we have the wide range of combinations of all these ingredients from which to choose.

Mr. SCOTT (*Danforth*): But the private brand is inferior in performance?

Mr. BATES: It is not inferior in performance with respect to the needs and desires of a lot of consumers, and, for its price, it represents to them very good value, obviously, otherwise Dominion Stores would not be able to keep it on their shelves. But under controlled conditions in the laboratory we can demonstrate quite clearly the superiority of Omo.

Mr. SCOTT (*Danforth*): Another conclusion in your brief is that there is no effective way of measuring power cleaning units. Is that correct?

Mr. LOCKWOOD: That is correct. We have looked into this in the past in our companies in various parts of the world. This problem has been tackled, but because of the variables you heard described this morning, and which we ourselves describe, it is an actual impossibility to standardize. It is rather like saying you have a standard car. You know you have got 100 types of cars with different shapes and sizes. They all run on four wheels and get you from A to B, but you cannot, for example, say what is a unit of automobile. It is not possible. It is the same with a product of this sort. It is a highly sophisticated, complex, chemical formulation which can be varied in a thousand different ways and, therefore, to try to establish a basic index, I think, would not only be difficult and dangerous but might inhibit, in fact, further innovations and improvements in the products themselves.

Mr. SCOTT (*Danforth*): Yet, from watching your advertising, particularly on television, I get the impression that you actually, as part of your ads, talk about the larger numbers of power cleaning units in your product. I am thinking particularly of the commercial where the young bride is effervescing over her young husband's shorts—trousers—well, you know what I am talking about. And then the older woman comes along and tries to talk her into one of the older products. The answer is always, "Oh, this has more power cleaning units."

Is there not something wrong there?

Mr. LOCKWOOD: Well, some people have used that particular appeal, but we have not in fact. For most of our products our advertising is built around either the cleaning power, the whitening power or the brightening power, and these are real factual results that you can get from different sorts of detergents. You can get more brightening from some detergents than from others by the use of the best type of fluorescents. You can get more deep cleaning from still another type of formulation. I do not think anybody in our industry has ever been able to develop the kind of thing you are looking for. They may have used the words "units of power" in some advertising copy, but, in our opinion, no such units can be established.

Mr. SCOTT (*Danforth*): But you are prepared to stake the very reputable reputation of Lever Brothers that this cannot be done.

Mr. LOCKWOOD: It cannot be done in a way which would be meaningful to the housewife. This is the point: "which would be meaningful to the housewife."

Mr. SCOTT (*Danforth*): I will pass on. Would you put me at the bottom of the list again, please?

The ACTING CHAIRMAN: Yes. We will hear from Mrs. MacInnis now.

Mrs. MACINNIS: I would like to ask some questions about your packaging. As you can see I have a couple of cakes of bath soap with on-pack premiums. Referring to the packaging itself, a lot of women are asking if it is really necessary to have each of these bars individually wrapped and then have them in

a cardboard package, which in turn is wrapped in cellophane. In addition to that, of course, there is the attached premium. I will come to that in a minute, but are these three wrappers essential for the packaging? They must add to the cost.

Mr. LOCKWOOD: In the normal pack, of course, there is not the outer cellophane wrap, but the inner wrap and carton themselves are vitally important. We use in a product like that a very high-class and expensive perfume. We want to make sure that when that arrives in the housewife's home the perfume is maintained as far as possible. That is the reason for that protection.

Mrs. MACINNIS: Could you make any substantial saving without all this individual wrapping?

Mr. LOCKWOOD: We could make some saving, but we would then lose the perfume.

Mrs. MACINNIS: Now about this "on pack" thing. When I went to get the package of soap I was looking, as is my custom, for a plain package of soap.

Mr. SCOTT (*Danforth*): You could not find it?

Mrs. MACINNIS: I could not in this brand when I looked the other day. Lux is a good kind of soap, and I wanted a bigger Lux. That is not a commercial!

The ACTING CHAIRMAN: Then what is it?

Mrs. MACINNIS: The fact is, you say, a person does not have to buy this (*Indicating nail brush*), but in this particular instance I had either to buy it or buy somebody else's soap. The consumer does not have to take it away, but is it not true that the consumer has to buy this, in any event, because you pay for it when you are buying soap anyway? How much is this worth? (*Indicating nail brush*)

Mr. LOCKWOOD: I will let Mr. Bates answer that question.

Mr. BATES: Mrs. MacInnis, when you ask how much is it worth, you mean how much does it cost us or how much is it worth to the consumer?

Mrs. MACINNIS: How much does it cost you?

Mr. BATES: I think that cost us somewhere around 6 or 7 cents a unit. I think its normal retail value would be about 25 cents.

Mrs. MACINNIS: It costs the consumer ultimately, when you say "us".

Mr. BATES: No, she paid the same price for the soap.

Mrs. MACINNIS: No consumer thinks that you are going around like fairy godmothers giving away little brushes for nothing. The consumer pays, is that not true?

Mr. BATES: No, not in that case, I do not think she does.

Mrs. MACINNIS: Well, who does?

Mr. BATES: To attract consumers to try this particular brand of product, which had just previously been quite substantially changed and improved, we employed this particular technique temporarily. We spent on that nail brush, let us say, 6 or 7 cents, which we then gave free to the consumer. There are other alternative methods open to us to attract the consumer.

Mrs. MACINNIS: I do not want to get to the others right now. I want to establish the fact that this cost the consumer 6 or 7 cents. Is that correct?

Mr. BATES: No, I do not think it is correct. It cost us 6 or 7 cents.

Mrs. MACINNIS: But where did you get the money to pay for it?

Mr. BATES: Out of our profits, which we spend on advertising and promotion.

Mrs. MACINNIS: Where do you get your profits from?

Mr. BATES: From selling our products.

Mrs. MACINNIS: To whom did you sell your products?

Mr. BATES: To retailers and wholesalers.

Mrs. MACINNIS: Who did the retailer sell them to?

Mr. BATES: The consumer, presumably.

Mrs. MACINNIS: And in the ultimate result the consumer pays for this, so that is right, is it not? I guess I had better be more definite. Do you not agree that ultimately, no matter who is responsible for passing it on, the consumer does pay?

Mr. BATES: I think ultimately, yes, the consumer does pay.

Mrs. MACINNIS: In the light of this, how do you account for the fact you say that in 1965 you saved the consumer, through premiums and cents off, almost $2 million?

Mr. BATES: Through price off, through cents off offers. I would like to point out with respect to that particular premium, in the normal course of events that premium, the nail brush, would have been tested in actual in-store tests with consumers having a free choice alongside perhaps a 7-cents off offer; and not until we were quite sure from those in-store tests in a number of cities across Canada, not until we were sure the consumers exercised their preference for that nail brush, would we use it to attract consumers instead of, let us say, a straight price off offer.

Mrs. MACINNIS: About this cents off. Have you any way of ensuring that a cents off offer will be passed on to the consumer?

Mr. BATES: Yes, we think we have in the way we handle cents off offers normally. Here is one, for instance, on Dove Liquid. It says, "10 cents off." We bought this in Ottawa this morning ourselves. It is marked on the pack by the retailer "89 cents." The regular prevailing retail price on that size of Dove is 99 cents; it has been ever since this product has been on the market. That is the regular price you will find in virtually every chain store in this part of the country.

When we want to make a 10 cents off offer we take the precaution of printing on the label " the price shown is 10 cents off regular price." And, lo and behold, there it is marked on the pack "89 cents," which is in fact 10 cents lower than the prevailing normal retail price.

Mrs. MACINNIS: Have you ever considered printing on your packages and bottles what it cost you people, the manufacturers, to produce that product the minute it leaves your factory?

Mr. BATES: No, I do not think we have.

Mrs. MACINNIS: Would that have an influence on the retailer's price, if you did?

Mr. BATES: I do not see what influence it would have.

Mrs. MACINNIS: Would it let the consumer see how much it cost to produce that article?

Mr. BATES: I am not sure whether the consumer would really be any further ahead in knowing that. My own view is, based on a certain amount of experience with consumers over the years in this country, that the average consumer is not really concerned and does not really base her judgment on the number of cents worth of raw ingredients that go into any product. What she is looking for is satisfaction for her needs and wants. It is the end result of the product that counts for her and the sort of value it represents to her.

Mrs. MACINNIS: I know, but it is precisely this question of value, because to a great many consumers I know price is not a negligible factor. We are trying to get at what has been raising prices to the consumer. If the consumer knew how much it cost the manufacturer to make that product, would the consumer not be

in a better position and better protected against retailers tampering with the actual value they put on them?

Mr. BATES: The first thing I would be afraid of is that it might give a boost to an inefficient manufacturer who might, for instance, print on the pack that, "This product cost me 22 cents to make"; whereas a more efficient manufacturer might make exactly the same thing for 17 cents. What conclusion would she draw? That that is a better product?

Mrs. MACINNIS: I thought you would be in a position to handle that by means of advertising and other promotional means.

Mr. BATES: Well!

Mrs. MACINNIS: Let me ask this question. If it were made illegal for all manufacturers to use such things—soap manufacturers, detergent manufacturers and so on—to use cents off and premiums in and out, and all these other gimmicks for selling, and you knew your competitors could not have access to those things either, would your sales be able to be kept up?

Mr. BATES: It is very difficult to say. It is really a very hypothetical situation, one which is rather difficult to imagine. I would say it would be much more difficult to maintain sales; there is no question about that.

Mr. LOCKWOOD: One of the great problems that such an action produces is crystallizing out the situation in the market place. As we said in our brief, one of the great values of promotional effort of various types and kinds is to induce in the market intense competition, and it is by this intense competition prices are kept down and quality improved. The minute you start tampering with the free play of the competitive market you get the kind of situation we saw during the war, that I so well remember in England. Nobody made the slightest change in any grocery product during the war because there was a price ceiling and a profit ceiling, and everything was regulated. As a result, even if the people had the time and energy to do it, nothing happened. Furthermore, you would ensure the leader in the market being in a nice safe position, and nobody can attack him because you cannot use the very weapons which competition allows us. We attack our competitors in order to try and increase our business, and in the process of doing that we have to produce better products at lower prices.

Mrs. MACINNIS: Well, I think it is time that it was recognized that there are a great many consumers across this country that would sacrifice a little bit of choice in the way of gimmicks and things like that in order to get prices that are lower. I am not at all convinced that all of these things do keep the costs down. I think they add to the costs.

Mr. LOCKWOOD: Mrs. MacInnis, we tried the very thing you are suggesting twice, and at great expense. We tried it in London, Ontario and in British Columbia. We tried to follow the very policies you are suggesting, and the housewife turned us down.

Mrs. MACINNIS: How do you account for the fact that this business of towels in detergent is much more popular in Quebec and the Atlantic regions than it is in other provinces? There must be an explanation for that.

Mr. LOCKWOOD: There are two explanations for that. The French-Canadian housewife is a very sharp buyer by nature. I do not know whether there are any French-Canadian ladies present, but there is no doubt but that in this area—Quebec—this kind of offer has been highly successful. There is also the fact that the value the housewife gets in Breeze is very good. The profits we take on that product are inevitably lower than those we take on the ordinary detergents. The housewife is getting extremely good value in the form of the tea towel and the powder, and this is sharp buying. The same applies to the Atlantic provinces. There they are very sharp buyers indeed.

Mrs. MacInnis: We had evidence given us this morning that it took quite a long time to convert women to the idea that soap was not as good as the new detergents. I remember that very well. We are now in the process of deciding another thing, with respect to which even the soap people do not agree, and that is to whether the suds are psychological or not psychological. From the evidence we heard today there seems to be a very good case for the psychological aspect of suds. There is also the suggestion that because these detergents work well in a washer they will work well in other places. Suppose women get it through their minds that this is true, would not a campaign in which you put a good product on the market as cheaply as possible, consistent with cost and reasonable return, pay dividends, if enough women tried it?

Mr. Lockwood: Mrs. MacInnis, we have done this.

Mrs. MacInnis: You have done it with only one or two products, and then only regionally.

Mr. Lockwood: We have done it on a number of occasions, and we must allow the consumer to have a free choice. Women want to buy products of different types and kinds. Must we, because some people do not think it is a good idea, therefore deny the millions of women who have bought our product Breeze—and I think we calculated the other day that over 170 million purchases of Breeze with towels had been made in the last few years—the right to buy that kind of product if they want it?

Mrs. MacInnis: I am speaking of the millions of women who do not live in the Atlantic provinces or Quebec. You give freedom of choice to those women in respect to gimmicks. Would it not be possible to conduct a campaign to see if it is—

Mr. Lockwood: What about this? (Indicating box marked "Surf: Square Deal")

Mrs. MacInnis: No, I know about Surf. You have tried that only regionally.

Mr. Lockwood: Yes, and in your province.

Mrs. MacInnis: This is not 1962; this is 1966. We did not have agitations then about the high cost of living.

Mr. Lockwood: This, I might say, was put out in 1966—the first six months of this year. We have just taken it off the market.

Mrs. MacInnis: May I suggest that it is only within the last six months of this year that we have had women concerned about prices. I think we will be hearing more about this until some effort is made towards realizing that for a lot of women freedom of choice consists of having a freedom of choice in respect of good products without any gimmickry.

Mr. Lockwood: Any woman who goes into a supermarket now has the largest choice ever in the history of mankind. Right here in the city of Ottawa she can choose from 25 different types of detergent that will suit and satisfy every possible need. Should we really continue to multiply that by offering things like this, (Indicating Square Deal Surf) which we have already proved are not attractive to the buyer?

Mr. O'Keefe: But only in the rich provinces.

Mr. Lockwood: We have also seen this proved in other parts of the country.

Mr. O'Keefe: Which other parts? You have mentioned only Ontario and British Columbia.

Mr. Lockwood: No, we have not tested this in other areas, but we have used powder in cellophane bags. We had a splendid product called Sunny Monday with which we experimented in Alberta.

Mr. O'Keefe: Another wealthy province.

Mr. BATES: I think a good example of that is the one we quoted in our brief, Mrs. MacInnis—Breeze with towels and Breeze without towels. That campaign was national, from one coast to the other of this country.

Mrs. MACINNIS: One was blue and one was white?

Mr. BATES: Yes, and I might add that at that time the consumer was expressing her choice as between blue and white detergent powder across the whole market of this country in the proportion of about 50-50. There was a 50-50 preference between the blue and white powder. There was a classic freedom of choice. I have heard you in previous hearings asking manufacturers: "Would you not try to let the consumer choose?" I will say that we were five years ahead of you, Mrs. MacInnis, and we almost went out of business on this brand.

Mrs. MACINNIS: And was the advertising comparable for the two kinds?

Mr. BATES: It was an overall campaign on Breeze, and the White Breeze from which we took the premiums had its weight adjusted.

Mr. LOCKWOOD: There was full weight.

Mr. BATES: And its price was adjusted downwards.

The ACTING CHAIRMAN: Were they identically the same product?

Mr. BATES: Yes, the same product.

Senator O'LEARY (*Antigonish-Guysborough*): How did the consumer know it was the same product. The designation White and Blue was your own.

Mr. LOCKWOOD: One product was blue and the other one was white. We had been selling both at that time, and the preference as between them was 50-50.

Senator O'LEARY (*Antigonish-Guysborough*): Did you ever tell the consumer that they were identical?

Mr. LOCKWOOD: Yes, by our advertising. We said: "This is Breeze, and Breeze is the brand that guarantees performance".

Mr. BATES: You see, Senator O'Leary, there had been the brand Breeze available in either blue or white with identical premiums inside, and women could make their choice.

Senator O'LEARY (*Antigonish-Guysborough*): So you assumed from that that the housewife knew—

Mr. BATES: Yes, we are confident that she knew.

Senator O'LEARY (*Antigonish-Guysborough*): But you did not put "White"; you put "Super" on there.

Mr. LOCKWOOD: We put "Super" on the package in order to try to sell this without any premium in it.

Senator O'LEARY (*Antigonish-Guysborough*): It seems to me that there was a certain amount of confusion with respect to it.

Mr. ALLMAND: I am interested in knowing—I will accept the fact that nobody bought Four Square and the other product, but I am interested in knowing why. I am wondering if you have tried to investigate why in the city of London and in British Columbia where you had a cheap product which you advertised, and which gave a choice in respect of price to the consumer, that product did not sell. What conclusions did you come to? Did you come to the conclusion that consumers just like high priced products; that they knew there was a higher quality of product and they were willing to pay a higher price for the higher quality product? Did you investigate, and did you come to any conclusion as to why this product did not go?

Mr. LOCKWOOD: I might answer your question as to why the product did not go by saying that here you get into the nuts and bolts of the business. We are in the business of selling things, and when you are persuading consumers to buy your products you have to use the technique of promotion and advertising, and

so forth. But, once you depart from that system, which has been tested over the years, you will find, in fact, that the consumer does not turn to your product. This is a fact of life, and the market place proves it. Otherwise, we would not use promotions; we would not use advertising. But, the market demands this. As soon as you change the rules and try to do this sort of thing then you cannot keep the interest of the consumer.

Mr. ALLMAND: This is a great study in mass psychology.

Mr. LOCKWOOD: Yes.

Mr. ALLMAND: I have been to many meetings of consumers since these protests started and, as Mrs. MacInnis says, without a doubt all the women who go to these meetings say that they do not like these things. But, you say the fact of the matter is that they have not taken the low-priced product when they had the choice. This is hard to understand, but as one other witness said here, when the time comes to vote in the supermarket they vote for the towel.

Mr. LOCKWOOD: Surely this is human nature. We are not dealing with computers. It is a complex reaction, and we have to study this. The psychology of advertising and selling has proved very conclusively that women, in fact not only women but men, when buying cigarettes or doing any kind of shopping have a reaction which is not necessarily logical.

Mr. ALLMAND: Could it be that, let us say, even up to the middle of this summer consumers, both men and women—and in the supermarkets they are mainly women—did buy these things because they did not give enough thought to it or did not find the squeeze on their dollar such as there is now, but could it be there has been a lot of re-thinking on the part of the consumers and they may now be willing, because they see the squeeze on the dollar from all sides, to accept a product such as Square Deal Surf and so on?

Mr. LOCKWOOD: We are certainly watching this, of course; and more than anyone else in the country I think we have made a very determined and costly effort to try to prove the validity of what you are putting forward; but so far all of the evidence goes against this; however we will continue to watch and if necessary make another investment.

Mr. ALLMAND: The supermarkets have told us in recent months there has been an increase in the sale of private brands, which means a switch to the cheaper products, not with low suds necessarily, but with other types of products. There has been a rise in the sale of private brands because it appears it is a matter of price, that is, from September up till now.

Mr. LOCKWOOD: I would think we would say that it is still a very small movement and a very small percentage of the mass market which thinks that way in this country, and I do not see, and there is no evidence, for example, from the United States, where you have the most advanced and sophisticated market, that that move is taking place, or in Europe, either, in any marked fashion.

Mr. ALLMAND: I want now to move to another area. It is surprising that Lux went down in price 12 per cent over the period of years we are studying when the costs of all kinds have been going up. How do you explain that?

Mr. LOCKWOOD: I think here there was an important question of policy involved. We felt at the time that we dropped the price of Lux that it had been selling at the price of other leading liquids, and we decided to drop the price because we felt we could get a greater volume of sale at a lower price. We felt that the other products were, in our view, and perhaps wrongly, high priced and that here we had a good product that could achieve greater volume at the lower price.

Mr. ALLMAND: And did it?

Mr. LOCKWOOD: Yes, it did, as a matter of fact, not entirely due to price, because the situation was complicated, because very shortly after we lowered the price we introduced a new element, Dermasil, to keep the hands soft, and it had rapid acceptance by the consumer. It is rather unfortunate that one was not able to watch the true play of price and volume because it was complicated on account of the improvement we made.

Mr. ALLMAND: But you dropped the price.

Mr. LOCKWOOD: Yes.

Mr. BATES: I think it is safe to say that the drop in price of fairly sizeable proportions on Lux liquid did not increase markedly the sales of the brand, and certainly not to the level of expectation that we had had before we dropped the price. In other words, when we dropped the price and this reduced our profit margin by so many cents a case we obviously had some idea of the additional volume we would have to get to make it pay, and we were not anywhere near that. Then realizing that, we made the next move which was to improve the product substantially, which we did, by incorporating into it an ingredient which actually can produce a beneficial effect on women's hands.

Mr. ALLMAND: And you kept the same low price?

Mr. BATES: We kept the same low price momentarily, and then shortly after we put the price back up, not to its original price but about half way up.

Mr. ALLMAND: And what happened?

Mr. BATES: Then our sales started to climb.

Mr. ALLMAND: But this 12 per cent reduction, is that an averaging down?

Mr. BATES: That is the present price relative to the price five years ago.

Mr. ALLMAND: One final question. Many people wonder why all these different brands are necessary. I see in exhibit 6 you have under detergents about nine different products. You distinguish between 'all' and Omo, but could you tell us what really is the difference between Omo, Surf, Sunlight powder, Sunshine Rinso, Rinso "Blue Dot," Breeze and Extra.

Mr. LOCKWOOD: I think I can give an answer to that. There is a difference in quality and pricing between Omo and Surf. Surf is a comparatively low-priced, inexpensive product. Sunlight Powder is a regional brand which we sell in the Maritimes, fairly low in price. Rinso "Blue Dot" was a test operation, a regional operation which we sell in western Canada. 'all' is a national brand. Dishwater 'all' is for a dish washing machine. Each one has a different quality.

Mr. ALLMAND: What about Breeze and Omo and Surf, as detergents?

Mr. LOCKWOOD: Breeze is at practically the same detergent level, does not have the specialty ingredients such as the high fluorescing ingredients that we have in Omo, but they are very close.

Mr. ALLMAND: As a product name really the main difference is in the towel?

Mr. LOCKWOOD: That is correct.

Mr. ALLMAND: What is the exact difference in price between Breeze and Omo?

Mr. BATES: The regular size Omo retails at 53 cents, in this part of the country, and Breeze at 55 cents.

Mr. SCOTT (*Danforth*): I understood you to say that towels are very expensive.

Mr. LOCKWOOD: Less expensive than anybody could buy them, of course, at the retail store, and that is the advantage of the product, that it provides a bath towel at a price we can get when we buy millions of units.

Mr. BATES: As we said, the consumer can get the combination detergent and bath towel for a price slightly higher than the price of the detergent alone, and she recognizes this value.

Mr. SCOTT (*Danforth*): I bought a box of Breeze this morning and now it is almost half empty and it has a towel. I bought Breeze because it was from good old Levers. When I got the box out the contents went down. The story we have been given by the manufacturers is that these boxes are really filled in the beginning, but they settle. If they are filled up in the beginning how do you get the box inside?

Mr. LOCKWOOD: We have to accommodate. The box is put in first and the powder on top of it.

Mr. BATES: In that one we fill the box upside down. We put the premium in first, and the powder right to the bottom, if you like. Normally it will settle a bit.

Mr. LOCKWOOD: Yes, it will settle a bit, because the board tends to what we call "belly," and you have to have very expensive board to prevent that, and it does not seem worth while.

Mr. SCOTT (*Danforth*): I am still unconvinced.

The ACTING CHAIRMAN: Senator Carter?

Senator CARTER: Practically all of my questions have been asked by Mr. Allmand. In regard to Exhibit II, Profit after taxes, margarine, do you make a loss? What does the "(6.0)" mean?

Mr. LOCKWOOD: That is a loss. We are making a loss on our margarine business at the moment.

Senator CARTER: Do you attribute that to the heavy taxation?

Mr. LOCKWOOD: We do not attribute the loss to the heavy taxation. Margarine prices are low. We are spending investment money in developing one of our lines and are deliberately taking a loss in the process.

Senator CARTER: This is temporary?

Mr. LOCKWOOD: We hope it is temporary.

Senator CARTER: It is part of the development of a new product?

Mr. LOCKWOOD: Margarine prices are extremely low. The margins of profit are extremely low from margarine, as you can see.

Senator CARTER: Is it due to competition with butter?

Mr. LOCKWOOD: It is partly due to the policy of subsidizing butter prices. If butter prices were allowed to reach normal level, butter might be selling at 80 to 90 cents a pound; but butter is subsidized to a level where it makes it extremely difficult for us to make a reasonable profit in the margarine industry. We are prepared to do this, because we are international manufacturers of margarine and we look forward over the years to the ultimate development of a major and important industry in Canada.

Senator CARTER: Which is your most important item, with respect to volume of sales?

Mr. LOCKWOOD: In the entire business?

Senator CARTER: Yes.

Mr. LOCKWOOD: Interestingly enough, Breeze is our largest seller and also makes the largest profit of any individual product, but it is closely followed by 'all'.

Senator CARTER: On your experiment with the even weights for "Four Square", comparing that package of "Surf" there with that one on the supermarket shelf, as far as other brands were concerned, which still had the odd sizes,

the consumer, Mrs. Housewife, was no better off. Although yours had even numbers, all the others had odd numbers and odd ounces?

Mr. LOCKWOOD: She could see the two pounds here.

Senator CARTER: If everybody else had odd numbers she would still have to make a determination in comparison with yours. Your competition was mainly between your own products, was it not?

Mr. LOCKWOOD: That is quite true. Our other products were packed in this way for a very good reason, as we have explained, it is the problem of package sizes.

Senator CARTER: Could Mrs. Housewife make a comparison as to just how good a bargain this was?

Mr. LOCKWOOD: We told her very clearly on the back of the package and on the front, how good it was, and we told her by advertising also.

Mr. BATES: We spent a good deal of money on advertising this particular brand to the consumer and we said to her such things in our advertising. We also said, right here on the package, in bold type:

> We guarantee honest weight. Four Square is packed by the pound—in one pound, two pound and four pound sizes. No odd weight sizes. Now you can easily calculate the extra savings available with each larger size package. We guarantee honest price. There are no frills about Four Square.

We also said that by buying Four Square she would be buying a good detergent at the lowest possible price, and we advertised this extensively.

Senator CARTER: But it is only in terms of your own products and not in terms of your competitors?

Mr. BATES: We could not do that.

Senator CARTER: We are still up against the same trouble. She would be looking at the price tag and trying to make a comparison with the price tags on competitors' products, and she would have to make a determination.

Mr. O'KEEFE: I had a letter the other day complaining, from a storekeeper, who suggested that many people compelled him to stock a great variety of these special products, by your advertising. One storekeeper showed me a huge stock and when I commented he said "I do not sell much, but the man who sells to me sells a lot". You said there are some 25 different kinds. Do you think all these kinds are necessary?

Mr. LOCKWOOD: We have never been able to put a product on the grocery shelf and keep it there unless there is a demand for it. This is particularly true of the supermarket. In the old days of the corner grocery store, it was possible for a hot salesman to sell a small grocer a load of products. You cannot do that today. All the products you see on the shelves of the supermarket today are carefully checked by computerized inventory records and so on. We find from time to time with various products that they get delisted as sales fall.

Mr. O'KEEFE: There are still at least 25 to 50 varieties in the supermarket.

Mr. LOCKWOOD: That appears to be so and it is quite reasonably supposed to be a natural situation of sophisticated and affluent society in which freedom of choice is the hallmark of that society.

Mr. O'KEEFE: I agree completely but it seems to me still a lot of varieties. How temporary are these temporary cents off deals? Are some of them permanent?

Mr. LOCKWOOD: Generally speaking, they would run from four to five weeks, that is, we cover the trade every four weeks or so, and then the deals generally are sufficient to allow us four to five weeks.

Mr. O'KEEFE: Can a large supermarket buy as much of that dealer's product as he wishes?

Mr. Peter G. Townley, General Sales Manager, Lever Brothers Limited: We have an allocation of each cents-off offer when we bring it on the market, as Mr. Lockwood has said. It is generally enough to supply every customer that we contact in the four week cycle, and we feel that with a price off deal we have to be able to offer it to every customer, not just the chain stores but down to the smallest independent.

Senator O'LEARY (*Antigonish-Guysborough*): Would the general statement be true that the on pack premiums are free to the consumer and the in pack premium is paid partially by you?

Mr. LOCKWOOD: I think in general that is a fair statement.

Senator O'LEARY (*Antigonish-Guysborough*): Which Breeze did you have first, the white or the blue?

Mr. BATES: We started with white.

Senator O'LEARY (*Antigonish-Guysborough*): Then approximately how long afterwards did you introduce blue?

Mr. BATES: I think the white was introduced in 1952 and the blue Breeze in 1954 or 1955, about two or three years after the white.

Senator O'LEARY (*Antigonish-Guysborough*): You have given us your promotional costs. Can you tell us approximately what it cost you to promote Blue Breeze?

Mr. BATES: You mean, currently?

Senator O'LEARY (*Antigonish-Guysborough*): No, the time you introduced it, as opposed to the white which you carried?

Mr. BATES: I can't tell you now. We could look back into the records and find out.

Senator O'LEARY (*Antigonish-Guysborough*): You gave us figures for promotional costs when you brought out this other weight package of white Breeze. It did not sell, but it had no bath towel or tea towel. Yet you spent a lot of money bringing out this white one. Is there any reason why you brought it out? Did you really want to give the consumer an economic package of Breeze?

Mr. BATES: In the first place I hope there has not been a misunderstanding. White Breeze had been available to the consumer since 1952 with towel premiums. We introduced in 1954 a blue version of the same product, with the same type of premium.

Senator O'LEARY (*Antigonish-Guysborough*): But a blue version.

Mr. BATES: Yes, and they sold side by side in all the stores. However several years later, about 1961, we were conscious of a lot of criticism coming from a lot of groups such as the CAC. The women there were saying, particularly, that "we do not want premiums, we resent having towels in the boxes," and so on. We responded to that and decided we would take the premiums out of one of those versions, to prove, and we took it out of the white product. We left the premiums in the blue product and we expected that the sales of both those versions of Breeze would be maintained. In fact, they were not. The white went down very very rapidly.

Senator O'LEARY (*Antigonish-Guysborough*): Why did you not put them side by side, the one with and the one without?

Mr. BATES: We did. They continued to sell side by side.

Senator O'LEARY (*Antigonish-Guysborough*): At the same time?

Mr. BATES: Yes.

Senator O'LEARY (*Antigonish-Guysborough*): The blue without and the blue with?

Mr. BATES: No, the blue with and the white without.

Senator O'LEARY (*Antigonish-Guysborough*): Why did you not take the blue without and the blue with?

Mr. BATES: I am sorry. You mean why did we not reverse it?

Senator O'LEARY (*Antigonish-Guysborough*): Why did you not experiment with the same product, the same colour?

Mr. LOCKWOOD: I think the reason really was that it would have been very complicated, in that we would have a white Breeze without premium, a blue Breeze with premium and a blue Breeze without premium. To ask any retailer to carry that selection of a single product would be very difficult.

Senator O'LEARY (*Antigonish-Guysborough*): I quite agree, I suggest, however—it is understandable, and I have no objection, and nobody has—that there was a competitive product at that time that was perhaps your main competition, that you were trying to meet. It probably suffered the same experience as yours. As I say, there was nothing wrong with that. When you introduced blue Breeze, your promotional costs must have been considerable, and I believe you have been quoting those promotional costs. Then you suddenly decided that you were going to give the customer white Breeze—

Mr. LOCKWOOD: I think, Senator, what you are really asking is why, if we launched white Breeze with a towel in it at great expense, did we eventually take the towel out. Is that the question?

Senator O'LEARY (*Antigonish-Guysborough*): No.

Mr. LOCKWOOD: No?

Senator O'LEARY (*Antigonish-Guysborough*): No. I sold this stuff for years and years, and I am not suggesting that there is anything wrong, except that I maintain that you did not want to sell the one that did not have the towel.

Mr. LOCKWOOD: Senator, we tried very hard and we had every reason to try. We needed that business.

Senator O'LEARY (*Antigonish-Guysborough*): Competitively, yes. There was a product that was competing in there. This is what I was driving at.

Mr. LOCKWOOD: We tried.

Senator O'LEARY (*Antigonish-Guysborough*): Sure you tried, and for a good reason.

Senator CARTER: When you took the towel out, was there a reduction in price?

Mr. BATES: Yes, Senator.

Senator CARTER: A significant reduction in price?

Mr. BATES: There was an increase in weight and there was a reduction in price.

Mrs. MACINNIS: I am not prepared to accept the picture of women's minds that is emerging out of this discussion. Is it not a fact that women have been conditioned for a long time by TV and other powerful forms of advertising to expect to get something for nothing, such as these in-packs and on-packs and so on. Is it not logical to believe that when you took the premium out, therefore, they thought they would be getting less value. Is that not the explanation?

Mr. LOCKWOOD: We know today that they honestly wanted the premium in the package, Mrs. MacInnis. That is why they bought the product in the first place. When we took the premium out of the package, we removed the very incentive that was in the product and they were no longer interested in it. These are the facts.

Mrs. MACINNIS: Could it not have been because they were conditioned by advertising to believe that they could get something for nothing?

Mr. LOCKWOOD: I do not think our Canadian housewives believe that for a moment. They are very shrewd buyers. At least the women that I have met do not seem to me to be expecting to get something for nothing.

Mrs. MACINNIS: Mr. Lockwood, women are told that they get bonuses or premiums for nothing. I am suggesting that your failure in this matter was not unconnected with the fact that they had been led so long to believe they could get these things for nothing that, when you withdrew the premiums, they believed that they were getting something less valuable.

Mr. LOCKWOOD: That was certainly not the reaction we got in this situation. I could not subscribe to that. I would like to repeat the reason why—and this is not just our opinion; it is our experience—they did not continue buying the product without the premium. The reason was that they wanted the premium in the first place and when it was removed they went back to buying the other product which had the premium in it.

Mrs. MACINNIS: Why do they not buy a towel separately?

Mr. LOCKWOOD: Because they are getting an extremely good value when they buy this product. We would not, as I say, have sold 170 million odd towels in the last few years across this country, if women did not believe that they were getting an excellent bargain. We can prove that at any time and will be delighted to do so.

The ACTING CHAIRMAN: I believe our counsel has a few questions to put to the witnesses.

Mr. JOYAL: I will be as brief as I can. This is just to supplement some information already provided in your brief and appendices. Would you be good enough to provide to the committee your auditors' statements for the period 1960 to your last fiscal period.

Mr. LOCKWOOD: We will be pleased to do that, yes.

Mr. JOYAL: Will you give us the balance sheets as well as the profit and loss sheets?

Mr. LOCKWOOD: Certainly.

Mr. JOYAL: On Exhibit 2 you have provided us with a cost breakdown of your commodities. However, to be able to offer the committee a better basis for comparison—and this is also consistent with the information we are receiving or have received from your competitors—generally, would you read question No. 9 in the suggested topics for discussion and, where it says to select 10 major commodities, in each case detail the appropriate manufacturing and sales costs and so on. Now, on your exhibit 9 there is a very useful list of nine different commodities or brand names giving the prices over the last 18 months. Perhaps, just to understand what we are looking for, you could use these various goods or commodities mentioned here and give us the percentage breakdown as to manufacturing costs, promotion, and so on.

Mr. LOCKWOOD: We would be pleased to do that.

Mr. JOYAL: Would you also provide us with the dollar sales for each of these items.

Mr. LOCKWOOD: Yes.

Mr. Athol P. McDiarmid, Financial Director, Lever Brothers Limited: In other words, you want the same breakdown we have but with dollar sales.

Mr. JOYAL: Now, respecting advertising, it has been alluded to in previous meetings of this committee that the cost of advertising is always of some concern to the consumer. In Exhibit No. 3 you have a breakdown of what your main commodities are, your liquid detergents and powdered detergents and your soaps. In view of the multiplicity of trade names under which, for example, liquid detergents are marketed, and assuming, of course, that you have separate and distinct promotion and advertising programs for each of these categories in each commodity, has any thought been given to reducing the cost of advertising or promotion by grouping your institutional advertising under three or four headings instead of under 15 or 20?

Mr. LOCKWOOD: Of course, this is an old debate in the field of advertising and marketing. Our business has been built on marketing brands which stand on their own feet, with each brand providing a specific promise to the consumer. In order to insure that the consumer receives the message in its entirety, we find it essential to advertise the brand. We do not advertise Lever Brothers products. We advertise Lux liquid, Lux toilet soap, Breeze and so on. These are the products. This is how we sell them. This is a proven and successful method.

Mr. JOYAL: But you do not think that you could reduce the cost of advertising if, for example, you used Lever Brothers as a heading and then included under it Lux and the other hand soaps and so on?

Mr. LOCKWOOD: It might reduce the cost of advertising. It would definitely reduce the effectiveness.

Mr. JOYAL: It would? Has it been tried at all?

Mr. LOCKWOOD: It has.

Mr. JOYAL: In any of your international operations?

Mr. LOCKWOOD: It has not been tried in the detergent industry. It has, of course, been tried in other categories of products, but not in the detergent industry as such.

Mr. BATES: In a sense, Mr. Joyal, we already do this. I think it is safe to say that there is some reduction in the total expenditure on advertising for such products as those bearing the name "Lux". Now, here is a case where we have used that brand name for a toilet soap, a liquid detergent and a powder. Now, undoubtedly we spend somewhat less. I do not think it is a great amount of money, but we spend somewhat less on all three of those brands together compared to what we would spend if they were totally different brand names.

Mr. JOYAL: You capitalize on Lux and use it for different products.

Mr. LOCKWOOD: Yes, that is true, but that is as far as we would want to go.

Mr. JOYAL: You are a wholly-owned subsidiary, are you not?

Mr. LOCKWOOD: We are a wholly-owned subsidiary of Unilever Limited in London.

Mr. JOYAL: Have you any subsidiary companies of your own here in Canada?

Mr. LOCKWOOD: Yes, we do have some.

Mr. JOYAL: Could you name them for us?

Mr. LOCKWOOD: We have the Newfoundland Margarine Co. Limited. It manufactures and sells margarine in the Province of Newfoundland. We own the Hart Chemical Company of Guelph, which manufactures a wide range of chemical specialties in the textile, paper, leather and other industries. This company also has a 50 per cent interest in Argus Chemical of Canada Limited. It sells plasticizers and stabilizers to the plastics industry. We have Woodbridge

Moulded Products Limited of Toronto, manufacturers of a range of injection moulded plastic products. We have Myriad Detergents Inc., of Quebec, manufacturers of the liquid detergent Mir. And Hygrade Food Products Inc., of Montreal, meat processors in the sausage and luncheon meat field. These last two subsidiaries we acquired this year.

Mr. JOYAL: Are their operations reflected in Exhibit 1?

Mr. LOCKWOOD: No, they are not. I also should have mentioned the Success Wax Limited.

Mr. JOYAL: Oh! you own that too, do you?

Mr. LOCKWOOD: Yes.

Mr. JOYAL: When did you take that over?

Mr. LOCKWOOD: Several years ago.

Mr. JOYAL: The operations of any of the subsidiary companies you mentioned are not reflected in Exhibit 1?

Mr. LOCKWOOD: No, they are not reflected in Exhibit 1.

Mr. JOYAL: Would they be reflected in your audited statements you are going to provide to the committee?

Mr. LOCKWOOD: Yes, they will be.

Mr. JOYAL: Consolidated?

Mr. LOCKWOOD: Yes.

Mr. JOYAL: Do these subsidiary companies provide base or other materials for your own production facilities?

Mr. LOCKWOOD: Yes, to some degree. Hart Chemicals does. We provide material for the Newfoundland Margarine Co.

Mr. JOYAL: And, obviously, a company like Success Wax would have its own distribution outlets, and so on?

Mr. LOCKWOOD: Our Lever sales force handles the Success line of products.

Mr. JOYAL: Have you any arrangements with your parent company with respect to payments to them for any services rendered by the U.K. company?

Mr. LOCKWOOD: We have a nominal $25,000 a year fee which we pay to London.

Mr. JOYAL: Is that all?

Mr. LOCKWOOD: That is all.

Mr. JOYAL: Are there any other services you have to pay for?

Mr. LOCKWOOD: We pay $160,000 a year, roughly $160,000 a year—it varies from year to year—for services rendered by the laboratories of our associated company in New York.

Mr. JOYAL: This is paid to the American subsidiary?

Mr. LOCKWOOD: This is paid to the American company for specific services rendered in their laboratory.

Mr. JOYAL: Is there a formula for that particular payment?

Mr. LOCKWOOD: Yes, it is handled on the basis of invoiced time charges.

Mr. JOYAL: It is not on a percentage basis of sales?

Mr. LOCKWOOD: No, it is not on a percentage basis of sales.

Mr. JOYAL: Have these payments you have made over the past five years to either the United Kingdom or your associated company in the United States been concurrently allowed by the National Revenue people as an expense?

Mr. LOCKWOOD: Yes.

Mr. JOYAL: Are there any royalties you pay to the United Kingdom company?

Mr. LOCKWOOD: No.

Mr. JOYAL: Any to your associated companies anywhere else?

Mr. LOCKWOOD: Not that I am aware of. No, not now. I think the answer is "No". However, I will check that. It is just possible there might be in this complex, but I do not think so.

Mr. JOYAL: Would you also provide us with a breakdown of what payments have been made to your parent or your associates over the past five years?

Mr. LOCKWOOD: Yes.

Mr. JOYAL: This will probably be disclosed in your audited statement. Have there been any dividends paid by you to your parent company over the past five years?

Mr. LOCKWOOD: Yes, there have.

Mr. JOYAL: Do you know the amounts?

Mr. LOCKWOOD: I have not got the amounts with me. We will file those for you. They will show in the audited statements.

The ACTING CHAIRMAN: What about your undistributed profits?

Mr. JOYAL: Your undistributed profits will be declining from year to year.

Mr. LOCKWOOD: No, we have not paid any dividends in the last two years.

Mr. JOYAL: Do you know the cumulative total over the past five years of dividends you have paid to the U.K.?

Mr. LOCKWOOD: I do not think we have the figure here, but we will provide it for you.

Mr. JOYAL: As of your current statement—I am sure you must have a current statement with you.

Mr. LOCKWOOD: Of the consolidated group?

Mr. JOYAL: No, of the Canadian group. When does your fiscal year end?

Mr. LOCKWOOD: December 31. We are just coming up to it now.

Mr. JOYAL: Have you your statement up to December 31, 1965?

Mr. LOCKWOOD: No, that is what we will send along to you.

Mr. JOYAL: Do you remember what you have in there of undistributed profits?

Mr. MCDIARMID: Around $12 million on a consolidated basis.

Mr. JOYAL: This would include the subsidiary companies?

Mr. MCDIARMID: Yes.

Mr. LOCKWOOD: Yes, it is consolidated.

Mr. JOYAL: I suppose we will have to wait to get your audited statements to get what has been the total of Lever Brothers, including your Canadian subsidiaries?

Mr. LOCKWOOD: We published that figure last year, as you know.

Mr. JOYAL: Yes, but we have not been able to trace them back over the six years.

Mr. LOCKWOOD: We will do that for you.

Mr. JOYAL: I might have just one more question—

The ACTING CHAIRMAN: While you are considering that, all the undivided profits you have in your Canadian company, are they invested in Canadian securities, or what do you do with them?

Mr. LOCKWOOD: They are invested in the business, generally speaking.

The ACTING CHAIRMAN: But you must have some profits that are in liquid cash form?

Mr. LOCKWOOD: We have an investment in a company in Newfoundland.

The ACTING CHAIRMAN: But what I am getting at is that you must have some cash reserves in your company?

Mr. MCDIARMID: No, we have a $2 million overdraft at the present time.

The ACTING CHAIRMAN: Your company is in the same position as mine!

Mr. JOYAL: This other question has already been asked, thank you.

Mr. SALTSMAN: Mr. Lockwood, as you have noticed, we have been trying to get at the role of advertising as it affects the consumer. It has been a very difficult proposition. I think it is an important thing to try and get the answer to this problem, since a large percentage of your costs, not only of your company but of any other company, are incurred through advertising. The question is: What happens if these advertising costs are reduced? How is the consumer affected by this sort of thing? If, for argument's sake, in your particular industry all advertising were just cut off completely—in other words, there was just no advertising at all in your industry—which way would the consumer suffer a disadvantage?

Mr. LOCKWOOD: I think one can sum this up very rapidly. Advertising is a vital method of passing information, and as soon as you remove advertising as a method of communication the consumer would not know anything about improvements or new products. For a period of six or nine months you probably would not notice very much difference, but after that the market would become static. We, as manufacturers, would not be able to make the investment in research and development to produce new products, and the consumer, therefore, would not benefit from the trends of modern research and scientific advance, and you would reach the sort of situation which happened during the war, as I said earlier.

Mr. SALTSMAN: The situation in the war I really do not see is analogous because there were other problems involved there.

We all have faith in the consumer; we have all said the consumer is very discerning and very intelligent, and is able to see and find values.

Let us create a model where this advertising has not been conducted. You go past the six-month period to where there is no consideration of overflow effect, and you put the products we now have on the grocers' shelves, and on your boxes you list the qualities of your product and the way your product is going to help the housewife do the dishwashing or various other chores. Are you saying, in effect, the consumer could not then make a valid judgment in her own interest?

Mr. LOCKWOOD: If she could take the time and have the energy to study 20 or 30 different packages and read in detail the advantages on each of these, she might, I suppose, be able to find out which appeals to her the most. But just imagine the problem for the housewife when she is shopping, going into a store and there is a mass of products, and she does not know anything about any of them, and she has to walk down shelf after shelf, not just for detergents but for everything that goes into her basket. She has got to make that kind of a study, and I think this is demanding more than human nature can stand.

Mr. SALTSMAN: Is she not really making the same kind of study when she watches a television program or reads a magazine in which your company advertises each one of its products. Do you not make a similar demand on her time in asking her to examine all the arguments you are making? Is not her time really being occupied more significantly by the kind of study we are talking about than it is under the present system? After all, she still has to choose, and she still has to agree to purchase.

Mr. Lockwood: I think the answer to that one, Mr. Saltsman, is that with television, newspapers and magazines we are able to present the benefits of the different products in an easily recognizable way for the housewife, with an appeal and a promise to her. We do this work for her. She does not have to do it herself. We tell her, and try to persuade her that these are the products she should buy, and we give reasons. This is a different thing from having to make that careful kind of examination, box by box, in the store.

Mr. Saltsman: One of the questions is this: Will the consumer be a little better off, perhaps, in not being persuaded as effectively as she is now, and entertained in the process, from what she was when she was in the position of making her own evaluation of these products? She does not have to do this every time she goes into a supermarket. I would point out that the consumer does this already with respect to such articles as shoes and gloves and other things. She makes what might be called a shopping choice. Why should she not make that kind of a shopping choice in respect of an item such as soap?

Mr. Lockwood: Because when you are buying gloves you can pick them up, try them on, and see if you like them. You cannot do that with products in the supermarket. You have to be told by advertising promotion what they will do. This must be brought to the attention of the housewife succinctly and easily. It is done in a very expert way, and she does not have to go through this job of evaluating.

Mr. Saltsman: How does the housewife discern which is the better product by watching the commercials on television or reading the advertisements in a magazine of three different soap companies? After all, they all make the claim that their product does the best washing job. They all make the claim that they are going to give her a cleaner and brighter wash. They all make these claims, although perhaps not in exactly the same words. I have not seen any soap company say: "Our product is second best to that of Lever Brothers Limited". I know that this is done in the car rental field, but it is certainly not done in the soap business. How does the soap business know which is best?

Mr. Lockwood: We tell her that we think our products are the best, and that they will give her the cleanest and whitest wash. We say to her: "Mrs. Consumer, buy a package of Omo and take it home, and you will find that it does, in fact, give the brightest wash".

Mr. Saltsman: So, in the final analysis the consumer has to experiment before she can accept your evaluation of it.

Mr. Lockwood: Inevitably, because this is a personal choice.

Mr. Saltsman: Why can she not do that without the benefit of advertising?

Mr. Lockwood: Because she would not know what the advantages of that product were unless we advertised them to her.

Mr. Saltsman: This is very significant. Unless you told her what those advantages were she would not know about them. In other words, she would not know whether she was getting a clean wash unless she was pre-sold that it was a clean wash.

Mr. Lockwood: Just imagine your wife on a Friday—

Mr. Saltsman: But my wiefe is a very intelligent woman. I am sure she could make an intelligent decision. Seeing all of this mass of packages would not throw her off. I think she would work it out in an organized fashion.

Mr. Lockwood: Maybe she would like to, but I do not think we could ask millions of housewives across Canada to make that kind of elaborate study every week.

Mr. Saltsman: Do you feel that the reason you advertise is because the housewives ask you to advertise, or because you feel you are compelled to

advertise in order to sell your product? This is one of the things we have got to get at. Who initiates this decision to advertise?

Mr. LOCKWOOD: Of course, we do. Our job in business is to use the capital provided by our shareholders to manufacture the product which we have the expertise to manufacture, and to get the product to the consumer we must get the consumer to use it by the methods of communication. As I have explained so often in the past, advertising has exactly the same role that was played by the man selling oranges in the market place in Rome two thousand years ago. He simply shouted out that he had the most beautiful oranges that morning. All we do in the market place is what that individual seller did in the past, although we do it much more cheaply using the methods of communication that we have.

Mr. SALTSMAN: That has changed somewhat. We have self service stores today where theoretically goods are put on the shelf and the consumer is free to make her choice. Is not this the principle of self service—the giving to the consumer of the opportunity of going through and making her own decision?

Mr. LOCKWOOD: Surely she can make her decision, but how do you get the products on the shelf in the first place? Is the retailer going to take an unadvertised product? I can assure you that if you go to any chain store operator today and say: "I have a beautiful box of detergent, Mr. Chainstore Operator, and I want you to put it on your shelves", he will say: "What are you doing about it?" If you say. "I do not like advertising because it is an additional cost", he will say: "Thank you very much, would you like to take it away?"

Mr. SALTSMAN: I think, when we are talking about advertising, we can accept the fact that no one individual or no one group can make a decision regarding whether they are going to advertise or not. This becomes the structure of industry. But, we are talking about an industry, and we are trying to get—the reason why I am pursuing this line of argument is because it is important for us to understand the role advertising plays. So, I hope you will view the questions I am asking in that light.

Mr. LOCKWOOD: Yes.

Mr. SALTSMAN: You are a great advertiser. You know about human motivations. What we are trying to get at is the role that advertising plays. The kind of thing you suggest about retailers not taking on soap is not quite the fact, because soap would still be soap whether it was advertised or not. I suppose people buy soap because they want to wash clothes, and not because the soap is advertised.

Mr. LOCKWOOD: May I give you a facinating example. My colleague, Mr. Bates, knows it very well because he was there. It was interesting to study the detergent sales system in the Moscow chain stores. In Moscow up until quite recently there was no advertising, and the State provided Grade A and Grade B detergents. You could buy either Grade A or Grade B. It is intriguing to see that today the consumer is tired of Grade A and Grade B, and advertising people are now going to Moscow to teach the Russians how to advertise. They are setting up government advertising agencies, because the housewife under those circumstances, has found it intolerable in having her freedom of choice dictated by the state.

Mr. SALTSMAN: We are not drawing a very exact parallel because here there is far more than just Grade A and Grade B.

Mr. BATES: May I try to answer your question, Mr. Saltsman? I think what you are suggesting to the detergent industry, which is dedicated to the development of products to satisfy consumer needs, having developed under a different set of economic and social conditions to its present point, is: "Enough, let us stop there. Let us not have any more. Let us not have any more development. We have enough brands. Stop advertising in the whole industry, and leave things

just as they are. There is enough choice". That, I suggest, would be the ultimate result of what you are suggesting.

Mr. SALTSMAN: Yes.

Mr. BATES: If I may continue for a moment I will say—and I speak only for Lever Brothers Limited of Canada; I cannot speak for Unilever around the world, but I feel this would be the result—that should we be deprived of the ability or the freedom to market our products with advertising and to develop legitimate sales promotion techniques, I am quite certain that we would stop spending all the money that we do on research laboratories around the world, and on development laboratories, because we would see absolutely no point in going on trying to develop increasingly better products for the housewife. That would be the result if we were deprived of the only techniques that are available to us for getting our products distributed and into the hands of the consumer. It is as simple as that.

Mr. ALLMAND: Do you not think that your sales promotion might take another form. Perhaps it might be more expensive. A witness this morning said that if advertising were cut out sales promotion would come in in some other way. Perhaps there would be door to door selling or—

Mr. JOYAL: Post cards.

Mr. SALTSMAN: Yes.

Mr. BATES: I think Mr. Saltsman meant advertising generically—all forms.

Mr. SALTSMAN: If you cut out advertising would you not find other ways of promoting your product?

Mr. BATES: Unequivocally we would, and those ways would be more expensive. They would include going from door to door—and that we have done in the past.

The Acting CHAIRMAN: I would point out, Mr. Saltsman, that it is now a quarter to six, and we have had a long afternoon. Perhaps you could bring your questioning to an end soon.

Mr. SALTSMAN: I think all of us accept the necessity for innovation and the necessity for exploring new products. None of us wants to see any diminution of that, and I think it is quite helpful to the housewife. Also, I think we all want to see very lively competition between different producers. However, the question is, is there a more effective way of doing it, can it be done with less advertising expenditures. In Great Britain of course there have been some investigations into this field, particularly the soap industry, claiming that some of this advertising has gone too far, and they are urging a cut back on advertising expenditures across the board. We are not talking about blacks and whites, but it is a question of degree, whether this whole process of your competing ferociously with other companies, one against the other, is perhaps not working completely to the consumer's benefit, that you may all be spending far too much money unnecessarily.

Mr. BATES: I do not agree with that observation, Mr. Saltsman. I think it is precisely in those parts of the world where advertising is used in this way that the consumer has unquestionably benefited from having a wide choice of better products, more sophisticated products, more advanced products, than in the other countries where advertising is restricted or hampered or used to a much lesser extent.

Mr. SALTSMAN: I have a short final question. If advertising allowances, as has been suggested in Great Britain, were reduced by a certain percentage—for the sake of argument let us say 20 per cent, although I understand it was 40 per cent—which way would the consumer suffer?

Mr. LOCKWOOD: I think the answer to that is what Mr. Bates has just said, and what we are all saying, that a reduction of advertising to a point where we could not reach economically the consumer would tend to stabilize the market and deny the kind of development and investment we make in new product innovations. I believe it would have this inevitable effect. The money we spend today is very carefully watched, it is in our interest. In an attempt to make a profit we keep our advertising to the absolute minimum. We are in business to make a profit, and I can assure you that every nickel is counted, as we have stated in our brief.

The ACTING CHAIRMAN: Mr. Scott.

Mr. SCOTT *(Danforth)*: Did I understand you to say that you distributed 170 million towels?

Mr. LOCKWOOD: Yes, over some 15 years.

Mr. BATES: Give or take a million.

Mr. SCOTT (*Danforth*): What's a million. So that is the equivalent of eight towels for every man, woman and child in Canada.

Mr. LOCKWOOD: Over a period of 15 years.

Mr. BATES: And don't ask me what they do with them.

Mr. SCOTT (*Danforth*): Either they do not last long, or the bathrooms are over stocked with them. There is one question I would like to ask because of the requests we have had from a large number of women. It deals with your soap. Take Dove, for example. You sell two bars of Dove white for 55 cents, and sell two bars of Dove bath size for 65 cents. The complaint we have received is that there is absolutely no marking whatever on the box to indicate to the housewives—I presume it is the same soap—or nothing to help her judge whether one is a better buy than the other. I have received this complaint on numerous occasions, and we raised it the other day, and I believe the reply we got was that there is no way to mark a soap box so that the housewife can have any meaningful basis of comparison. The same applies to Lux soap. I just wondered if there is no way you can consider marking these boxes so that some comparable reasoning can go on in the mind of the buyer.

Mr. LOCKWOOD: I think you heard the remarks of the witnesses this morning on this subject. I think our attitude would be this, that if the consumer really would find it helpful to have these weights marked on the toilet soap boxes, although we see that there are disadvantages in the shrinkage and the change in weight, nevertheless, if it would be helpful to say on the packet "Five ounces as packed", we would have no objection to doing it. It is not done in other countries because of the reasons given, that there is this very considerable loss of weight. However, if we felt this would be of real help to a housewife, then Lever Brothers for one would have no objection to doing so.

Mr. SCOTT (*Danforth*): Well, that is as fair an attitude as anybody could give.

The ACTING CHAIRMAN: I hear a motion to adjourn. Before leaving, I wish to thank the witness, Mr. Lockwood and his associates for the brief they have presented to us, and for the helpful answers they have given us.

The committee adjourned.

Exhibit I

LEVER BROTHERS LIMITED

Comparative Statements of Sales and Earnings at December 31, for the Six Year Period 1960 Through 1965
($000's)

	1960	1961	1962	1963	1964	1965
	$	$	$	$	$	$
Gross Sales	54,674	56,403	54,179	52,695	51,571	56,040
Less—						
Outward freight and warehousing	2,923	3,059	3,059	3,130	2,739	2,842
Federal sales taxes	4,567	4,514	4,240	4,205	4,118	4,455
Cash discounts	424	436	408	405	404	424
*Trade and other allowances	3,692	3,653	3,425	3,225	2,944	3,229
	11,606	11,662	11,132	10,965	10,205	10,950
Net sales	43,068	44,741	43,047	41,730	41,366	45,090
Less—						
Cost of sales:						
Purchased materials	18,171	19,995	18,999	18,489	18,531	20,416
Packaging materials	4,409	4,357	4,045	3,695	3,598	3,836
Plant labour	1,833	1,925	1,981	1,925	1,813	1,802
Plant burden	2,848	3,105	3,060	3,146	3,069	3,004
	27,261	29,382	28,805	27,255	27,011	29,058
Gross profit	15,807	15,359	14,962	14,475	14,355	16,032
Operating Expenses:						
Marketing	3,148	3,386	3,380	3,540	3,607	3,827
Advertising	5,093	5,092	4,104	3,312	3,608	4,275
Sales promotion	1,075	1,110	1,545	1,754	1,288	1,396
Administration	3,035	3,020	3,419	3,428	3,262	3,515
	12,351	12,608	12,448	11,854	11,765	13,013
Trading profit	3,456	2,751	2,514	2,621	2,590	3,019
Other income or (expense)	137	208	11	63	43	(295)
Profit before taxes	3,593	2,959	2,525	2,684	2,633	2,724
Income taxes	1,907	1,606	1,306	1,445	1,355	1,418
Profit after taxes	1,686	1,353	1,219	1,239	1,278	1,306
% Gross Sales	3.1%	2.4%	2.3%	2.4%	2.5%	2.3%

*This caption covers billing credits or reductions in connection with co-operative advertising and merchandising allowances and "cents off" offers.

EXHIBIT II

LEVER BROTHERS LIMITED

COST BREAKDOWN OF PRINCIPAL COMMODITY GROUPS YEAR 1966

	Detergent Powders	Liquid Detergents	Bar Soaps	Margarine
	%	%	%	%
GROSS SALES	100.0	100.0	100.0	100.0
Outward freight and warehousing	6.4	5.4	3.5	5.6
Federal sales taxes	8.9	8.8	9.0	8.8
Cash discount	.8	.7	.8	.8
*Trade and other allowances	6.1	10.5	5.8	8.5
NET SALES	77.8	74.6	80.9	76.3
Purchased materials	34.3	20.0	20.7	40.9
Packaging materials	7.6	15.0	5.2	8.1
Plant labour	2.9	2.5	5.5	6.4
Plant burden	5.0	3.9	7.5	8.2
Marketing	7.8	9.5	8.0	8.3
Advertising	7.8	12.4	11.4	6.4
Sales promotions	2.3	4.5	2.1	3.6
Administration	6.5	6.8	7.2	6.0
Other expense	1.0	1.0	1.0	1.0
Income taxes	1.4	(.5)	6.4	(6.6)
PROFIT AFTER TAXES	1.2	(.5)	5.9	(6.0)

*This caption covers billing credits or reductions in connection with co-operative advertising and merchandising allowances and 'cents off' offers.

EXHIBIT III

LEVER BROTHERS LIMITED

ADVERTISING AND CO-OPERATIVE ADVERTISING EXPENSES—1960 through 1965

($000's)

	Advertising	% of Gross Sales	Co-operative Advertising	% of Gross Sales
1960	$5,093	9.3	$698	1.3
1961	5,092	9.0	752	1.3
1962	4,104	7.6	689	1.3
1963	3,312	6.3	688	1.3
1964	3,608	7.0	611	1.2
1965	4,275	7.6	599	1.1

EXHIBIT IV

LEVER BROTHERS LIMITED

COST PER OUNCE COMPARISON BY PRODUCT SIZES

Brand	Size	Ontario Rep. Chain Store Retail Price	Per Ounce
	oz.	$	¢
Omo	20	.53	2.65
	42	1.05	2.50
	80	1.85	2.31

These price relationships clearly show the considerable saving available to the housewife when she purchases larger sizes. A home that uses 40 oz. of Omo per week for laundry, can save $7.07 per year by buying the 80 oz. size rather than the 20 oz. size.

EXHIBIT V

LEVER BROTHERS LIMITED

PACKAGING MATERIAL COSTS—1960 through 1965

($000's)

	Annual Cost	% of Gross Sales
1960	$4,409	8.1
1961	4,357	7.7
1962	4,045	7.5
1963	3,695	7.0
1964	3,598	7.0
1965	3,836	6.9

EXHIBIT VI

LEVER BROTHERS LIMITED

PRODUCT LIST

Product Name	Pack	Net Weight per Unit
Soaps and Synthetic Detergents		
Omo	Reg. 24	1 lb. 4 oz.
	Giant 12	2 lbs. 10 oz.
	King 8	5 lbs.
Surf	Reg. 24	1 lb. 4 oz.
	Giant 12	2 lbs. 10 oz.
	King 8	5 lbs.
	10	4 lbs.
Sunlight Powder	Reg. 24	1 lb. 4 oz.
	Giant 12	2 lbs. 10 oz.
	King 8	5 lbs.
Sunshine Rinso	Reg. 14	1 lb. 4 oz.
	Giant 12	2 lbs. 10 oz.
	King 8	5 lbs.
Rinso "Blue Dot"	Reg. 24	1 lb. 5 oz.
	Giant 12	2 lbs. 12 oz.
	King 8	5 lbs. 3½ oz.
Breeze (with in-pack premiums)	Reg. 24	15 oz.
	Giant 12	1 lb. 14½ oz.
	King 8	3 lbs. 3 oz.
Extra (with in-pack premiums)	Reg. 24	15 oz.
	Giant 12	1 lb. 14½ oz.
	King 6	3 lbs. 3 oz.
'all'	24	1 lb. 9oz.
	8	4 lbs. 11 oz.
	4	9 lbs. 6 oz.
	2	20 lbs.
Dishwasher 'all'	12	1 lb. 4 oz.
Soap Powders		
Rinso Powder	Reg. 24	1 lb 4 oz.
	Giant 12	2 lbs. 9 oz.
Lux Powder	Reg. 24	1 lb.
	Giant 12	2 lbs.

Product Name	Pack	Net Weight per Unit
Dishwashing Liquids		
Lux Liquid	Reg. 24	12 oz.
	Giant 12	24 oz.
	King 12	32 oz.
Swan Liquid	Reg. 24	12 oz.
	Giant 12	24 oz.
	King 12	32 oz.
Sunlight Liquid	Reg. 24	12 oz.
	Giant 12	24 oz.
	King 12	32 oz.
Dove Liquid	Reg. 24	12 oz.
	Giant 12	24 oz.
	King 12	32 oz.
Verve Liquid	Reg. 24	12 oz.
Heavy Duty Liquid		
Wisk Liquid	Reg. 24	16 oz.
	Giant 12	32 oz.
	King 6	64 oz.
Cleaners		
Big Jim "D" Liquid	Reg. 24	16 oz.
	Giant 12	32 oz.
Bar Soaps		
Sunlight Twin Bar	50	7.50 oz.
Lux Beauty Soap	Reg. 72	3.50 oz.
	Bath 48	5.30 oz.
Lifebuoy	Reg. 72	3.50 oz.
	Bath 50	5.00 oz.
Praise	Reg. 72	3.50 oz.
	Bath 48	5.00 oz.
Dove Beauty Bar	Reg. 72	3.75 oz.
	Bath 50	5.00 oz.

Exhibit VII

COMPETITOR'S ACTIVITIES REPORT
AS REPORTED BY FIELD SALES
FORM 714 (R4)

DATE SEEN	BRAND

CITY	NFL	MAR	QUE	ONT	PRA	PAC	COMPANY

DESCRIPTION					
	DEAL VALUE (Factory Pack)				
	SIZE NAME				
	CASE CONTENT				
	BEST PRICE				
	SHELF PRICE				

SALESMAN'S COMMENTS: (LOCATION SEEN, INVENTORY LEVEL, DISTRIBUTION ETC.)

	SALESMAN	TERR.

DIVISION OFFICE COMMENTS: (EXTENT OF DISTRIBUTION, TEST MARKET CONFIRMATION ETC.)

EXHIBIT VIII

DIVISION | SALESMAN | CITY | W/E

		PRICE CHANGED SINCE LAST REPORT: STD. BEST PRICE PER LB.	*	DEAL PRICE: ACTUAL CHAIN RETAIL	×	● W/E SPECIALS — BY CHAIN NAME ● DEAL OR ALLOWANCE DETAILS
CORN OIL BRANDS						
IMPERIAL	1					
FLEISCHMANN	1					
	¼					
KRAFT	1					
MONARCH	1					
SOFT BRANDS						
GOLDEN GLOW	1					
BLUE BONNET	1					
SOFT PARKAY	1					
BUTTER CUP	½					
PARKER-HOUSE	1					
PREMIUM BRANDS						
GOOD LUCK	1					
	2					
	3					
BLUE BONNET	¼					
ELGIN	1					
	3					
SQUE,E	1					
PARKAY	1					
	2					
MARGENE	1					

		PRICE CHANGED SINCE LAST REPORT: STD. BEST PRICE PER LB.	*	DEAL PRICE: ACTUAL CHAIN RETAIL	×	● W/E SPECIALS — BY CHAIN NAME ● DEAL OR ALLOWANCE DETAILS
PRICE BRANDS						
SOLO	1					
	2					
	3					
ROSE	1					
	3					
TULIP	1					
	3					
MONARCH	¼					
	1					
MOM'S	1					
	3					
GEM	1					
GOLDEN DEW	1					
NUCOA	1					
	2					
DELMAR	1					
	3					
ALLSWEET	1					
PENNANT	1					
	3					
PARCHMENT BRANDS						
SOLO	1					
ROSE	1					
TULIP	1					
MONARCH	1					
MOM'S	1					
PARKAY	1					
ALLSWEET	1					
GOLD. DEW	1					
DELMAR	1					
PENNANT	1					
BUTTER						
1ST GRADE						

OWN & COMPETITORS' ACTIVITIES—MARGARINE SELLING PRICES
FORM 338 (R3)

Exhibit IX

LEVER BROTHERS LIMITED

Selling Prices of Selected Products 18-month Period Ended 1st November 1966

Best Price per Case

ONTARIO

Product	1965							1966										
	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept	Oct.	Nov.
BREEZE Giant 12 × 30.5 oz.	10.27	10.27	10.27	10.27	10.27	10.27	10.27	10.27	10.27	10.27	10.27	10.27	10.27	10.27	10.27	10.27	10.48	10.48
OMO Giant 12 × 42 oz.	10.06	10.06	10.06	10.06	10.06	10.06	10.06	10.06	10.06	10.06	10.06	10.06	10.06	10.06	10.06	10.06	10.26	10.26
'ALL' Regular 24 × 1 lb. 9 oz.	11.86	11.86	11.86	11.86	11.86	11.86	11.86	11.86	11.86	11.86	11.86	11.86	11.86	11.86	11.86	11.86	12.24	12.24
LUX Liquid—Giant 12 × 24 oz.	7.87	7.87	7.87	7.87	8.47	8.47	8.47	8.47	8.47	8.47	8.47	8.47	8.47	8.47	8.47	8.47	8.47	8.47
WISK—Giant 12 × 32 oz.	9.99	9.99	9.99	9.99	9.99	9.99	10.23	10.23	10.23	10.23	10.23	10.23	10.23	10.23	10.23	10.23	10.43	10.43
SUNLIGHT Twin Bar 50 × 1 lb.	14.41	14.41	14.41	14.41	14.41	14.41	14.41	14.41	14.41	14.41	15.06	15.06	15.06	15.06	15.06	15.06	15.06	15.06
LUX Beauty Soap Bath—48 × 5.3 oz.	8.86	8.86	9.25	9.25	9.25	9.25	9.25	9.25	9.25	9.25	9.25	9.25	9.25	9.25	9.25	9.25	9.25	9.25
DOVE Regular 72 × 3.75 oz.	15.65	15.65	15.65	15.65	15.65	15.65	15.65	15.65	15.65	15.65	15.65	15.65	15.65	15.65	15.65	15.65	15.65	15.65
GOOD LUCK Marg. 30 × 1 lb.	10.05	9.53	9.53	9.53	9.53	9.53	9.53	9.65	9.65	9.65	9.65	9.65	9.93	9.93	9.93	9.93	10.23	10.23

First Session—Twenty-seventh Parliament

1966

PROCEEDINGS OF THE SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON

CONSUMER CREDIT

(PRICES)

LIBRARY JAN 1967 UNIVERSITY OF TORONTO

No. 24

TUESDAY, DECEMBER 6, 1966

JOINT CHAIRMEN

The Honourable Senator David A. Croll

and

Mr. Ron Basford, M.P.

WITNESSES:

Consumers' Association of Canada: Dr. H. E. English, Executive Vice-President; Professor R. E. Olley, National Director; Mrs. W. M. Auld, National Director; Dr. David MacFarlane, Professor of Economics, McGill University.

The Canadian Manufacturers' Association: Mr. R. A. Engholm, Vice-President; Dr. M. W. Farrell, Chairman, Industrial Economists' Forum; Mr. J. C. Whitelaw, Executive Vice-President & General Manager; Mr. H. B. Style, Immediate Past President; Mr. C. A. Pollock, Chairman, Tariff Committee; Mr. Richard Lang, Manager of Tariff Dept.; Mr. H. J. Hemens, Chairman, Committee on Corporation Law; Mr. W. D. H. Frechette, General Secretary; Mr. Peter Bartha, Economic Research Director; Mr. Charles Perrault, Member, Executive Council.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1966

25235—1

MEMBERS OF THE SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON CONSUMER CREDIT

(PRICES)

For the Senate

Hon. David A. Croll, Chairman

the Honourable Senators

Carter,	Hollett,	O'Leary (*Antigonish-Guysborough*),
Cook,	Inman,	Thorvaldson,
Croll	McDonald (*Moosomin*),	Urquhart,
Hastings,	McGrand,	Vaillancourt—(12).

For the House of Commons

Mr. Ron Basford, Joint Chairman

Members of the House of Commons

Allmand,	Duquet,	McLelland,
Andras,	Horner (*Acadia*),	O'Keefe,
Basford,	Irvine,	Olson,
Cashin,	Leblanc (*Laurier*),	Otto,
Choquette,	Lefebvre,	Ryan,
Clancy,	MacInnis,	Scott (*Danforth*),
Code,	Mandziuk,	Smith,
Crossman,	McCutcheon,	Whelan—(24).

36 members

Quorum 7

SUPPLEMENTARY ORDERS OF REFERENCE

Extract from the Votes and Proceedings of the House of Commons, September 9, 1966:—

"Mr. Sharp, seconded by Miss LaMarsh, moved,—That the Joint Committee of the Senate and House of Commons appointed by this House on March 15, 1966, to enquire into and report upon the problems of consumer credit, be instructed to also enquire into and report upon the trends in the cost of living in Canada and factors which may have contributed to changes in the cost of living in Canada in recent months;

And that a Message be sent to the Senate to acquaint Their Honours thereof and to request the concurrence of that House thereto.

And the question being proposed;

Mr. Pickersgill, seconded by Mr. McIlraith, moved in amendment thereto,—That the motion be amended by striking out the words "by this House on March 15, 1966" where they appear in the second line thereof and by inserting in the motion as the second paragraph the following:

"That the Committee have leave to sit notwithstanding any adjournment of this House;".

And the question being put on the said amendment, it was agreed to.

After debate on the main motion as amended, it was agreed to."

Extract from the Votes and Proceedings of the House of Commons, October 7, 1966:—

By unanimous consent, Mr. Basford, seconded by Mr. Allmand, moved,—That the First and Second Reports of the Special Joint Committee on Consumer Credit and Cost of Living, presented to the House on Friday, April 1 and Thursday, October 6, 1966 be concurred in.

After debate thereon, the question being put on the said motion, it was agreed to.

Accordingly, the said Reports were concurred in and are as follows:

FIRST REPORT

Your Committee recommends that seven (7) of its Members constitute a quorum, provided that both Houses are represented.

SECOND REPORT

Your Committee recommends that the House of Commons section of the said Committee be granted leave to sit while the House is sitting.

LÉON-J. RAYMOND,
Clerk of the House of Commons.

25235—1½

Extract from the Minutes of the Proceedings of the Senate, September 13, 1966:—

"The Honourable Senator Connolly, P.C., moved, seconded by the Honourable Senator Hugessen:

That the Senate do agree that the Joint Committee of the Senate and House of Commons appointed to enquire into and report upon the problems of consumer credit, be instructed also to enquire into and report upon the trends in the cost of living in Canada and factors which may have contributed to changes in the cost of living in Canada in recent months; and

That a message be sent to the House of Commons to acquaint that House accordingly.

After debate, and—

The question being put on the motion, it was—

Resolved in the affirmative."

Extract from the Minutes of the Proceedings of the Senate, Tuesday, November 22, 1966:—

The Honourable Senator Connolly, P.C., moved, seconded by the Honourable Senator Beaubien (*Provencher*):

That the Third Annual Review of the Economic Council of Canada relating to Prices, Productivity and Employment, dated November 1966, which was tabled in the Senate today, be referred to the Special Joint Committee of the Senate and House of Commons on Consumer Credit and Cost of Living.

The question being put on the motion, it was—

Resolved in the affirmative.

J. F. MacNeill,
Clerk of the Senate.

MINUTES OF PROCEEDINGS

TUESDAY, December 6, 1966

Pursuant to adjournment and notice the Special Joint Committee on Consumer Credit (Prices) met this day at 9.30 a.m.

Present: For the Senate: The Hon. Senators Carter, Croll (*Joint Chairman*), McGrand and O'Leary (*Antigonish-Guysborough*).—4.

For the House of Commons: Messrs. Allmand, Basford (*Joint Chairman*), Lefebvre, MacInnis, McLelland, O'Keefe and Ryan.—7.

In attendance: Dr. R. Warren James, Special Assistant; Mr. John J. Urie, Q.C., Counsel; Mr. Marcel Joyal, Q.C., Associate Counsel;

The following were heard:

Consumers' Association of Canada:

Dr. H.E. English,
Executive Vice-President.

Professor R.E. Olley,
National Director.

Mrs. W.M. Auld,
National Director.

Dr. David MacFarlane,
Professor of Economics,
McGill University.

At 1.00 p.m. the Committee adjourned.

At 3.00 p.m. the Committee resumed.

Present: For the Senate: The Hon. Senators Carter, Croll (*Joint Chairman*), McGrand and O'Leary (*Antigonish-Guysborough*).—4.

For the House of Commons: Messrs. Allmand, Basford (*Joint Chairman*), MacInnis, McCutcheon, McLelland and O'Keefe.—6.

In attendance: Dr. R. Warren James, Special Assistant.

The following were heard:

The Canadian Manufacturers' Association

Mr. R.A. Engholm,
Vice-President.

Dr. M.W. Farrell, Chairman,
Industrial Economists' Forum.

Mr. J.C. Whitelaw,
Executive Vice-President & General Manager.

Mr. H.B. Style,
Immediate Past President.

Mr. C.A. Pollock, Chairman,
Tariff Committee.

Mr. Richard Lang,
Manager of Tariff Department.

Mr. H.J. Hemens, Chairman,
Committee on Corporation Law.

Mr. W.D.H. Frechette,
General Secretary.

Mr. Peter Bartha,
Economic Research Director.

Mr. Charles Perrault,
Member, Executive Council.

At 6.25 p.m. the Committee adjourned until Thursday next, December 8, at 9.30 a.m.

Attest.

John A. Hinds,
Assistant Chief,
Senate Committees Branch.

THE SENATE

SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON CONSUMER CREDIT

EVIDENCE

OTTAWA, Tuesday, December 6, 1966

The Special Joint Committee of the Senate and House of Commons on Consumer Credit met this day at 9.30 a.m.

Senator David A. Croll and Mr. Ron Basford, M.P., Co-Chairmen.

Co-Chairman Senator CROLL: I will call the meeting to order. We have with us this morning the Consumers' Association of Canada. On my left is Dr. H. E. English, Executive Vice-President of the Consumers' Association of Canada, Director of the School of Commerce and Professor of Economics at Carleton University, Ottawa. On his left is Professor R. E. Olley of Saskatoon, National Director and Assistant Professor of Economics at the University of Saskatchewan, Saskatoon. Next to Professor Olley is Mrs. W. M. Auld of Winnipeg, who is a National Director of the Consumers' Association of Canada. She is also the Chairman of the Consumer Problems Committee. And on her left is Professor MacFarlane, Professor of Economics, McGill University, Montreal.

Professor English will present the brief.

Dr. H. E. English, Executive Vice-President, Consumers' Association of Canada, Director of School of Commerce and Professor of Economics, Carleton University, Ottawa: Thank you, Mr. Chairman. Ladies and gentlemen, first of all, I wish to thank the Committee for this opportunity to appear on behalf of the Consumers' Association. I wish also to apologize for the lack of a French language copy of the brief. The Consumers' Association publishes its regular Canadian Consumer magazine in both languages, but, unfortunately, we have not had time to prepare the French language version of the brief.

My associates have all been introduced. I would add only one word: two of them, Professor MacFarlane and Professor Olley, are members of the Economics Policy Committee of the Consumers' Association, which is made up of members right across the country, who serve the Association on occasions such as this, when economic expertise is required.

I will now proceed with the reading of the brief.

PREAMBLE

We are pleased to have the opportunity to appear before this committee. Work and inquiry of the kind being done by this committee is of value to all Canadians, and is actively welcomed by the consumers who are members of the Consumers' Association of Canada.

In presenting our brief we wish to call the committee's attention to our assessment of the problem which underlies consumer unrest across the country. We do not intend to cast blame on particular groups nor to make unfounded charges. Summarizing our own later comments within the brief, we can say that

consumers are unhappy because rising prices are lowering the real incomes for many of them. Even the tax structure affects the real value of incomes in ways which we believe have not heretofore been sufficiently recognized. A number of problems about which the Consumers' Association of Canada has often spoken in the past make the whole situation even worse. We shall review those problems to put them into the context of the Committee's terms of reference.

Recognition of the difficulty of explaining fully the problems which give rise to consumer dissatisfaction, leads directly to our recommendation for an adequately staffed federal government department of consumer affairs. We contend that problems affecting consumers require much more deeply researched answers than can now be provided by voluntary organizations or departments concerned mainly with other things. We recognize that simple answers will do only for simple problems and have, in this case, avoided offering such solutions for the complex issues at hand.

THE NATURE OF THE CONSUMERS' ASSOCIATION OF CANADA

1. The Consumers' Association of Canada is a national organization serving the interests of Canadians as consumers. It is an incorporated association; non-profit, non-sectarian and non-political in its outlook and objectives. Thus it is independent of any particular region, business or industry. Funds are raised mainly from the membership dues of persons, and supplementary government grants.

2. The Consumers' Association of Canada has several objectives. First, the Association seeks to obtain, and provide for consumers, information and counsel on consumer goods and services. Research and testing is carried out to help to accomplish these objectives. In addition, it seeks to discover and represent an informed consensus on public policy issues affecting the consumer. To this end, the Association studies consumer problems with a view to recommending solutions and brings the views of consumers to the attention of government and industry. In short, the attempt is to provide services to and a voice for Canadian consumers.

3. The Association elects annually a national board of directors made up of a president, three vice-presidents, a recording secretary, a treasurer, sixteen directors and ten provincial representatives. This board is given counsel by a national advisory committee made up of past national presidents of the Association, selected other appointees and (at present) sixteen other representatives, one from each of the participating organizations. The national association receives information and advice from similarly organized CAC provincial associations, which are in turn representative of CAC local associations. Through this structure the national association gathers information and views from local groups all over Canada. No officer anywhere in this structure is paid any fee, salary or honorarium.

SUMMARY OF STATEMENTS AND RECOMMENDATIONS

4. It is not our intention, in presenting a brief to this special committee, to make accusations or call for drastic reforms. Rather, we are identifying the kinds of problems which worry the consumer. We are also attempting to show that there are genuine and substantial reasons for consumer concern, whatever the manifestations of it.

5. Our main arguments may be very briefly stated. First, we review some of the indicators of price and income changes in recent years, and point out the extent of improvement of the average Canadian's real income, and some of the implications of this change (paragraphs 7 to 13). Second, we note that one of the principal adverse consequences of inflation is that some people suffer much more

from it than others. We illustrate how uneven income effects can even result from the nature of the income tax (paragraphs 14 to 18). Third, we point out the special importance of increases in food prices. We comment on the instability of agricultural prices and on the inadequacy of competition in the processing and distributing of food products. Finally, we contend that costly and confusing merchandising practices have made rising prices even more harmful to consumers (paragraphs 19 to 29, and appendix).

6. We would like to make two broad recommendations. First, we recommend that the government act to ensure that the burden of inflation is not permitted to fall in a highly discriminatory fashion on particular groups in the economy, and that the benefits of prosperity which normally accompany pressures on prices should be enjoyed by all Canadians. A change in the exemptions system of the income tax is cited as one example of the sort of adjustment in public policy required to meet the consequences of inflation. Secondly, fully aware that the problems in this field are complex and require much research, we request the establishment of a federal department of consumer affairs. We believe that such a department is urgently needed, not just because of rising prices, but also because of the myriad of other consumer problems which require well-informed, extensive research. I might add it will continue to require that for a time after inflation has passed.

THE GENERAL NATURE OF PRICE AND INCOME CHANGES

7. In any examination of the impact of recent price increases on Canadians, there is a tendency to exaggerate the immediacy of the problem, and to seek drastic policy moves to counter the apparent sources of the problem. We shall resist these temptations first by examining the scale of our present inflation and relating it to past trends in the Canadian economy. In addition, we shall attempt to indicate the process underlying current inflationary pressures so as to make prescriptions that will not, in the name of anti-inflationary policy, impose serious long-run costs on Canadians. All too often the economic implications of arresting inflation are too short-sighted for the ultimate consequences for consumers have proved to be quite perverse.

8. The most appropriate measure of the rate of price increase as far as consumers are concerned is the Consumers Price Index. While there are shortcomings in that index, such as the static view of consumer purchases and the failure to account adequately for quality improvements and service prices, the orders of magnitude are reasonably accurate for short-term changes in prices. Examination of that index reveales a steady acceleration in the rate of price increase since 1963. The year percentage changes have been:

	1963-64	1.8 per cent
	1964-65	2.4 per cent
First 10 months	1965-66	3.8 per cent.

The most recent price increases have been substantially above the long-run price trend, which reveals an average annual rate of price increase of 2.1 per cent between 1949 and 1965. The evidence then does confirm the present concern over inflation as such; both because of the high absolute rate and because of acceleration in that rate in the recent past.

9. Our concern here is the extent to which this increase in prices paid by consumers has served to erode the gains in income in the economy. The record reveals the following rates of growth of personal income in the period 1963-66:

	1963-64	6.7 per cent
	1964-65	11.1 per cent
First half	1965-66	11.0 per cent.

To place this into perspective, the rate of increase in personal income since 1949 has averaged 7.3 per cent per year. Thus, the growth of aggregate personal income recently has been far greater than the trend rate in the postwar period. Needless to say, the aggregates fail to deal with the growth of income of individual Canadians. As a result, we have calculated the growth of personal income per capita over this period, and the following rates are found:

1963-64	4.9 per cent
1964-65	9.4 per cent
First half 1965-66	9.2 per cent
Long run 1949-65	5.0 per cent.

One can only conclude from this that average personal income has been growing at an extraordinarily high rate, both compared to past rates and compared to price changes. Since the bulk of personal income goes towards the purchase of consumer goods, we can calculate the changes in the purchasing power of personal income by eliminating the price changes. The rate of increase in "real" consumer income over these periods are:

1963-64	3.1 per cent
1964-65	7.0 per cent
Long run 1965-66	5.4 per cent
First half 1949-65	2.9 per cent.

The gains in average real income have been particularly great in the past two years when the Canadian economy was returning to full employment and experiencing increased pressure on prices.

10. It is impossible to attempt a full explanation of the complex forces which give rise to inflationary pressures on prices, and not really appropriate for the Consumers' Association to undertake this task. However, the Association wishes to call attention to certain evidence introduced by Professor E. P. Neufeld of the University of Toronto in his submission on September 29. I might say this was an individual submission, but Professor Neufeld is a member of our Association's Economic Policy Committee. He was not speaking for the Association at that time, but we respect his judgment. He noted that Canadian price changes have normally been a response to general demand and supply pressures which have affected both Canadian and U.S. economies. He further noted that Canadian policy makers might well concentrate on efforts "to keep Canadian prices and costs in line with U.S. prices and costs," because "to try to insulate Canadian prices from U.S. price increases would probably lead to increased unemployment and slower economic growth in Canada." In his brief there was a set of very important tables which I believe was published later in No. 9 of the series. I would urge your attention to these again because I believe they help to explain the importance of international sources of inflationary pressure.

11. He also noted that the increase in prices in Canada had been somewhat faster than in the United States, and attributed this primarily to "the Canadian dollar devaluation and the more rapid move in Canada, until recently, toward full capacity including low unemployment." This is best seen in the decline of the unemployment rate from a high of 7.1 per cent of the labour force in 1961 to 5.5 per cent in 1963 and to 3.9 per cent in 1965, with no substantial change thereafter. This rapid tightening of labour markets invariably leads to inflationary pressures. But the benefits from re-employing a large proportion of our labour force, together with the large impact of expansion on average incomes, far outweighs the cost of price rises.

12. It is also true that some recent wage settlements raised doubts about the prospect for keeping price increases in check, but again this may have been

due more to government intervention than to expansion of demands or even to the process of wage bargaining as such. In addition, the general lack of competition in our economy, as a result both of the fewness of our producers and their protection from foreign competition, has permitted administered price increases that have added to the inflationary process.

13. However, as Professor Neufeld stressed, during 1966, the period during which there has been a growing awareness of increased prices, Canadian and U.S. prices have kept in step. Thus the problem of inflation is not one which can readily be solved by Canada alone. Were the rates of price increase to continue at the rate of the recent past, it would be a cause for serious concern in both countries. However, recent statements by public authorities, particularly those of the Economic Council, raise doubts about the continuity of price pressures, and remind us that the government's task consists in keeping price increases to a minimum while ensuring high levels of employment and sound economic growth.

THE PARTICULAR EFFECTS OF INFLATION

14. The foregoing discussion should not be interpreted as indicating that the Association is not concerned about inflation, but rather that it may be to the particular, rather than the general, aspects that the principal attention of public policy should be directed. These relate to the fact that inflation affects some consumers much more adversely than others, and that prices and processors and distributor margins for food products have tended to increase much more than those of other products.

The unevenness of changes in the real income of different groups in the population can be illustrated in various ways. In the attached table a comparison of real wages by city is included.

15. There are numerous instances in the table where the real wage has fallen from one quarter to another. Some of these may reflect seasonal factors but it is hardly likely that they all do. The cities of Halifax, Winnipeg, Saskatoon and Calgary all experienced virtually no rise in real wages from the first quarter of 1965 to the second quarter of 1966. For Canada as a whole the rise in average real wages was less from the first quarter of 1965 to the first quarter of 1966 than it had been the previous year, while the gain in real average GNP per person was considerably greater that year than the previous one. Of particular interest are the movements in average real wages from the first to second quarters in 1966. In Ottawa, Toronto and Vancouver they actually fell, whereas they usually rise quite markedly. These have been cities in which some of the most serious consumer unrest has occurred.

16. It is not clear why the average real weekly wage has remained so low in Saskatoon and Winnipeg. However, it seems reasonable to argue that this reflects differences in the composition of the labour force. Possibly there is concentrated in these cities relatively more workers who, for one reason or another, cannot secure rapid wage increases. This leads to an important point. When the average worker is not much more than holding his real wage in face of price increases, large numbers are probably experiencing a decline in real wages as a result of price increases.

17. There is no doubt that many of those with lower incomes in Canada, namely pensioners and others relying on fixed incomes, do find their security eroded by inflationary trends. But we must not lose our sense of perspective on this issue. Since the vast majority of our population has gained so substantially during this period, it would be wrong to take the kind of anti-inflationary action which would arrest this improvement while endeavouring to protect the groups which are particularly vulnerable to inflation. It would surely be most rational to

INDEXES OF REAL WAGES IN SELECTED CANADIAN CITIES AND REAL GROSS NATIONAL PRODUCT PER CAPITA OF THE LABOUR FORCE

1963 AND 1964 TO 1966 QUARTERLY

1963=100

		Halifax	Montreal	Ottawa	Toronto	Winnipeg	Saskatoon	Calgary	Vancouver	Canada	Real Gross National Product Per Capita of the Civilian Labour Force
1963		100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1964	1st Quarter	103.3	101.3	101.7	101.2	100.5	100.6	102.8	102.8	101.6	102.2
	2nd Quarter	103.4	103.3	102.5	102.9	100.9	101.9	104.5	103.9	102.6	103.0
	3rd Quarter	103.1	103.2	103.0	103.2	102.1	102.2	104.7	103.8	102.7	103.3
	4th Quarter	104.3	103.0	103.1	102.5	100.6	102.8	105.4	104.9	102.7	103.6
1965	1st Quarter	107.4	104.5	105.0	103.7	101.2	103.9	107.3	106.0	104.4	105.9
	2nd Quarter	105.7	105.2	105.3	104.7	102.0	104.7	106.3	107.4	104.8	106.3
	3rd Quarter	105.7	106.0	106.3	104.8	103.8	103.6	107.3	108.1	104.6	108.4
	4th Quarter	105.8	106.4	106.3	105.3	102.8	103.7	107.0	109.3	106.7	108.7
1966	1st Quarter	107.3	107.6	107.1	105.8	101.3	102.6	107.5	110.6	106.6	109.7
	2nd Quarter	107.5	109.4	106.9	105.6	101.5	103.9	107.6	109.6	106.9	109.8

Sources: Real wage Index calculated by dividing consumer price index into industrial composite average weekly wages. Real gross national product per capita calculated by dividing labour force into seasonally adjusted quarterly real gross national product. All data quarterly averages of published data from D.B.S. sources.

tax a small part of the gain in real income of the majority to achieve the security of the less fortunate rather than to keep everyone's income stable by restraining the process of expansion.

18. Government transfer payments, such as the old age pension, and revenue gathering techniques are both affected by inflation. It is well known that the incomes of pensioners are eroded directly by inflation, and that adjustment of such incomes is made necessary if discriminatory effects are to be avoided. But the effect of inflation on tax burdens is also important. Under our present income tax structure it would be true that even if wage increases exactly matched price increases the consumer would become worse off in terms of his real purchasing power. A simple example will make the point. Suppose a consumer had, in 1949, an income of $4,000, on $1,000 of which he paid income tax at, say, 15 per cent. Suppose prices and wages increase by 40 per cent, that is the C.P.I. rises to 140 and his money wage to $5,600. At first glance he looks to be no worse off. But, let us calculate the tax. With unchanged deductions he would now pay 15 per cent on $2,600. Prior to the price and wage increase his after tax income would have been $3,850. After the increase in prices and wages his after-tax income would be $5,210 ($5,600 - .15 x $2,600). Thus while prices have risen 40 per cent, after-tax income has risen by only 35.3 per cent and the consumer is worse off by about 4 per cent. Since our income tax rates are graduated this erosion of a wage earner's real disposable income is even greater than the example indicates. The decrease in real disposable income can be shown to be greatest for the lowest income groups. Thus price increases introduce a hitherto unsuspected erosion of real incomes which is regressive in nature. Such regressiveness violates part of the intent of our income tax structure. We believe that some correction for this, in the form of altered basic deduction schedules, should be introduced. We realize that this would entail an adjustment to all income tax rates if the total tax yield is to remain the same, but we are deeply concerned about the relative shift in tax burden to the relatively less well off in Canada.

FOOD PRICES

19. The most serious aspect of the recent inflationary trends has been the rise in food prices. Food makes up so much higher a proportion of the budgets of those with lower incomes. Indeed it is largely because of recent popular action that food prices have become the subject of special attention. The main point here is that all consumer prices have risen in such a way as to erode the share of income going to consumers. We do not have the resources to determine precisely why this has happened or who have been the principal gainers. We do have an idea who have been the principal losers. A recent study *(Urban Need in Canada, 1965: A Case Report on the Problems of Families in four Canadian Cities, Section 1, Overview,* The Canadian Welfare Council, Ottawa, 1965, P.15) notes that low income families spend 43 per cent of their incomes on food and 29 per cent on housing. These have been the most rapidly rising elements in the C.P.I. in the last two and one half years. Whatever we say about the average wage-earner-consumer is much more true for these people—and much more serious for them.

20. Rising retail prices for food are the result of a complex of international and domestic forces over which little short-run control can be exercised. At the international level growing populations and rising standards of living in less developed countries place additional demands on available supplies of food products.

Furthermore, a number of particular factors have been cited as contributing to high food prices during the past year—a 7.5 per cent increase from August 1965 to August 1966. Demand for certain types of meat products in North America has grown more rapidly than the supply of these products. Unlike many

manufactured goods, production of such food items cannot readily be increased to meet this kind of increase in demand. Thus food prices tend to fluctuate more than other prices.

21. Domestically, the fact that 60 per cent of the final retail price of food is made up of processing, packaging and marketing costs, opens the retail price of food to inflationary forces wherever they arise in the economy. Excess demand or rising costs will tend to drive up food prices by their influence on the prices of labour, capital and materials used in processing, packaging or merchandising. Against the more general pressures on price little specific action can be taken. However, there are elements in the 60 per cent which seem to have risen unnecessarily rapidly. It is primarily these elements with which this section of our brief is concerned.

22. The CAC agrees that the consumer can in many cases protect himself for a while against rising prices by increased care in shopping practices. However, a number of current food merchandising practices so operate as to make such selectiveness difficult. We cannot offer statistical proof, but it is our impression that these practices have become more extensive in the last two years or so. The increased number and type of complaints we received, samples of which are presented in the appendix to this submission, form the basis for our statement.

23. Careful food buyers have long complained about packaging. Often the packages are unnecessarily elaborate and expensive. Price conscious consumers usually want the product not the package. Processors could help mitigate rising prices by selecting more economical packaging from the wide variety of packages available, though we are well aware of the reasons processors have for using more elaborate packages under present market conditions.

24. Furthermore, careful choice is made difficult if not impossible by the rapidly growing variety of sizes in many product packagings. We simply do not believe that myriads of package sizes are necessary or desirable. Although we know why they are used we object to them as confusing, unnecessary and inhibitive to the careful choice consumers are urged to make when prices begin to rise, either for particular groups of products or in general.

25. Wise choice is often made very difficult by packaging which conceals rather than reveals the contents. We have great difficulty understanding or being patient with the reasons offered for not putting on packages clear, readable and accurate statements about the ingredients and quantity of the contents.

26. Selling activities may take many forms, varying from mass media advertising to sophisticated packaging and gimmicks. The cost of all these promotional devices is included in the costs of processors and retailers and is passed on to the consumer in the final retail price. Promotional activities are all designed for the sole purpose of increasing or at least maintaining the existing business share enjoyed by a company or a corporation. The repeated expenditure of large sums on advertising and other promotional activity serves to raise barriers to competition by new producers and distributors and to stabilize the relative shares of the market supplied by established suppliers. From the economic point of view a large part of such expenditure is wasteful and would not take place if some way could be found for all firms to limit their promotional expenditures. Furthermore, such expenditure tends to be accentuated in periods of inflation when firms are profitable and are tempted to spend more on efforts to increase individual shares of the market. In a report on the work of the U.S. National Commission for Food Marketing, it was stated that:

> The high costs occasioned in some parts of the food industry by intensive promotion, superficial proliferation, and expensive distribution methods—all tracing back to the incentive to influence the consumer

—were the principal shortcoming the Food Commission found in the industry's efficiency....

More then two billion dollars is spent annually in advertising food.

In an extreme case, breakfast cereals, about one-fifth of the money the consumer spends goes to pay the cost of persuading her to buy a particular brand rather than another and to buy it in a particular store rather than in the one a block or two away.

At the other extreme, two products often sold by grade, fresh beef and frying chickens, have only about 3 per cent of the sales price represented by promotion costs, mostly by retailers.

Promotion—advertising, trading stamps, games—ordinarily is undertaken to increase volume of business, but any successful promotion by one firm tends to be countered by competitors.

Thus the firms often end up merely by maintaining volume rather than increasing it, and promotion costs must be covered by higher sales prices.

One way to reduce the volume of such costs would be to set some limit to the amounts which could be deducted for tax purposes.

27. We note with alarm the increase in advertising and promotional techniques which are being adopted in food merchandising. Without denying that every manufacturer and distributor has a right to promote his product or service, we consider certain practices to be largely self cancelling. Therefore we believe that they should cease since they further obscure the information necessary to careful choice, as well as increasing costs. We refer in particular to trading stamps, contests, give-aways and similar devices—and cite the A&P experience already presented in evidence to support our view that these devices do increase costs, hence do increase prices. These practices show a tendency to become more prevalent when times are good but prices are rising. Probably growing markets tempt merchandisers to try harder for a larger share of the market. Since the bulk of these devices are apparently self-cancelling it would seem more appropriate to induce processors and merchandisers to try lower prices, better quality, more complete and factual labelling, and more honest advertising (e.g. A&P's new policy) as a way of gaining sales.

28. Merchandising procedures seem, from the complaints received, to have taken on a misleading character in recent months. Two devices which tend to be deceptive have come to concern us. Firstly, there has developed a tendency to display merchandise away from its regular location in the store with a sign suggesting that the price is "special". Comparisons with regular merchandise have shown a number of instances where the "special" price was above the regular price, or at least no lower. All such technique achieves is to confuse the consumer. Secondly, the practice seems to be growing of describing contents in terms of servings which may mean different things to different packagers, or even to the same packager at different times. This is an unnecessary and confusing way of describing a package's contents.

29. Problems of the above types are serious and their increase is a matter of considerable concern to consumers as they make rational choice more difficult just when it needs to be made easier. It is desirable to develop curbs to these unsatisfactory practices before they become too deeply rooted into processing and merchandising techniques.

NON-FOOD FACTORS IN RISING CONSUMER PRICES

30. Regrettably the Consumers' Association of Canada has accumulated little data for this presentation on other areas than food where prices are rising.

Nevertheless, we observe rises in housing costs, household furnishings, municipal taxes, credit costs, transportation costs and automobile prices with great concern. In the 30 months from 1963 to June 1966 prices have risen for housing by 6.0 per cent, clothing by 7.7 per cent, transportation by 7.7 per cent, health and personal care by 11.6 per cent, recreation and reading by 6.7 per cent and tobacco and alcohol by 5.9 per cent. Though exact statistics are not available to us we believe that municipal taxes have risen more sharply still. Credit charges have risen so much and become an area of so much abuse that this committee was the result. From the types of complaints we receive we have reason to believe that problems and abuses of the kind we have noted in food and related products, are prevalent also in these other areas.

CONCLUSIONS

31. In preparing this submission we have been impressed with the magnitude and complexity of the problems before this committee. We do not have the resources to conduct the necessary extensive and intensive study which would be required for a full representation of the consumer interest, especially in non-food areas and with respect to the complex of economic interrelations affecting retail prices. We cannot, for example, determine the precise relations between fiscal and monetary policy and consumer prices. Nor can we adequately study transportation policy, credit costs, municipal taxing or tariff, patent and trade mark influences on pricing and merchandising practices. Even with respect to the problems we can easily identify, specific recommendations for regulation have to be left to agencies not primarily concerned with the consumer. Groups interested in consumer goods markets in different ways make varying and often contradictory claims about what could or should be done with respect to these and other problems. We believe that the answers to these problems can only be determined on the basis of research—comprehensive and impartial research on a continuing basis which no private group has the resources or personnel to undertake.

32. Recognition of these facts leads us to recommend that the establishment of a department of consumer affairs be given the highest priority. The complex economic, legal and technical factors behind the price and quality of goods finally offered for sale, as well as the terms of the offer to sell, must be studied by fulltime professionals. Moreover, only a branch of government could succeed in bringing about the long overdue co-ordination of legislation affecting consumers. And, a department of consumer affairs would provide a specific place in government to which we could address ourselves as consumers, and would have primary responsibility to take action on such representations.

33. With respect to the technical subject matter discussed in this submission intelligent specific recommendations are difficult to make. There are abuses in the merchandising, advertising, and packaging of food which could be curbed —such curbs would probably be welcomed by most responsible packagers and merchandisers. Here we are not advocating control of food marketing or processing. Rather we are looking for the prevention of wasteful, misleading, or cost increasing practices. These would still leave everyone free to pursue his own best interests, but with less misuse of resources.

34. Although a number of suggestions are included in the body of the submission we have only two formal recommendations. The rapid rise in prices seems to make necessary a revision in basic deductions for personal income tax calculations and adjustments to fixed incomes to remedy the hardships imposed by inflation on certain groups; we therefore urge that measures be adopted to achieve these purposes. Our other pressing recommendation is for the establishment of an adequately staffed department of consumer affairs, specifically

charged with the responsibility of inquiring into, and proposing necessary changes with respect to matters concerning consumers' wellbeing.

Co-Chairman Senator CROLL: I think it would be well if the appendix was read. There may be a bit of repetition in it, but it will explain nevertheless some of the matters that will be further elaborated when the questioning commences. It is only a few pages, and I think reading it would be worthwhile.

Dr. ENGLISH: I might say that this brief is truly a joint effort. The appendix material is a summation of ideas relating to consumer practices. It has been primarily the responsibility of Mrs. Auld and Professor Olley, and they are preparing to back up these summary remarks with specific examples concerning present practices.

APPENDIX

PROBLEMS IN BUYING CAREFULLY

The purpose of this appendix is to describe in some detail the kinds of problems which face buyers of foods and other products. For most of these problems we have relied on our own files and experience. However, we would like to call to the committee's attention to the publication *Food From Farmer to Consumer,* Report of the National Commission on Food Marketing, (U.S. Government Printing Office, June 1966, especially Ch. 10-12). This commission found, and reported as serious, many of the problems we discuss. The problems were cited as important even in the huge U.S. markets where, in the Commission's view, competition was efficacious in removing many of the worst abuses. If these are substantial problems in such a setting they are apt to be even more so in the Canadian market.

PACKAGING

One of the most frequent forms of complaint received by us involves packaging. Very often the packages are elaborate (hence expensive). They come in all kinds of odd sizes and shapes, virtually eliminating the chance of intelligent comparisons. In many cases the package is positively deceptive as to its contents. It may be only partly filled, or filled with "gifts," or it may actually mislead, as for example [1]20 oz. bottles of vinegar offered as "small gallons" or "4 quart" baskets of a variety of sizes. Illustrations on packages are a related source of complaint. They often fail to accurately depict the contents hence mislead the buyer. Adequate technical information on what the package contains is often obscure and sometimes missing.

What is actually in the packages creates further problems. Contents come in a bewildering number of fractions of standard weights. We can determine no technical reason why so many different sizes are necessary. (See *Canadian Consumer*—our regular publication—Sept/Oct., 1964 and Jan/Feb., 1965 for examples from toothpastes and detergents.) A growing practice is the use of the term servings to describe contents. This term seems to mean different things to different manufacturers (See *Canadian Consumer,* May/June, 1966, on fish and chips). We have not had a chance to check thoroughly but we wonder if this measure is even legal. In any case it is misleading and ought to be prohibited. Packages very often contain premiums or bonuses. These are often not related to the product and increase cost. For the industry as a whole they do not increase sales, but add to costs and limit consumer choice. Similarly coupons in packages also appear only to add to industry and consumer costs. Since the bulk of these practices seem to offset each other more than informing or aiding the consumer they should be stopped.

ADVERTISING AND PROMOTION

Advertising and promotional costs are often a matter of consumer concern. Lavish expenditure on media advertising is all passed on to the consumer as costs. We do not accept the argument that the promoter is paying the bill. He is getting the funds from some other product in his line, or will recover the costs from future sales of that or some other product. The consumer pays for the advertising which is directed at him. No attempt is being made to deny the necessity of advertising but we feel that the lavish scale of it goes well past the point of diminishing returns to the consumer, hence it ought to be curbed.

Another problem with advertising, aside from its sometimes misleading general nature as to the character of products, arises out of the way sales are announced. We receive many complaints about multi-page ads, describing a "sale," which turns out to list a large proportion of products at regular prices. Since no regular price comparisons are given the consumer is rarely able to determine the truth of all of the statements in the "sale" ads.

This leads directly into a very important question—that of promotional devices. Trading stamps, contests, coupons, give-aways, bingos and so on, all add to costs, and lead to increased prices. The users of these devices argue that such promotions increase sales, reduce per unit costs, and hence save the consumer money. No doubt there was some truth to this claim during the early post war years when supermarkets were growing and gaining sales at the expense of 'mom & pop' and corner grocery stores. However, such gimmicks do not take sales away from other supermarkets. Thus, it is now more likely that such devices do not gain sales for any store (since the chains are strong enough to fight a battle in any one region for a long time). What promotional gimmicks do is to raise costs to everyone and these costs are passed on to the consumer. Because of the, now, self cancelling nature of promotional schemes of the kinds noted above, they should be prohibited—they have outlived their usefulness.

MERCHANDISING PROCEDURES

A number of merchandising procedures, originating with both retailers and processors have given rise to numerous complaints and considerable concern at C.A.C. In stores one often runs into subtle attempts to convey the notion that regular prices are specials. Such terms as "everyday low price" or "special price" are often used to refer to products not on sale. While neither term is technically dishonest, each is misleading.

Related to the foregoing is the growing practice of setting up displays of products far away from their regular location or at cash registers. These are often labeled to indicate or suggest that the product is offered at a sale price. However, in many cases they are not. But the trouble in going back, or losing one's place in a check-out line, is great so buyers make choices under false impressions in pressure situations.

Charges in package sizes create another merchandising problem from the consumer's point of view. Often package sizes (and contents) fall with no decrease in price. This is a way of surreptitiously increasing price, with little chance for the buyer to notice it. Standard package sizes at significant differences in size would prevent this from happening.

The practice of marking packages with "cents off" has grown considerably. In some cases this device may be a method of inducing people to try a product at something under its anticipated regular price. In many other cases the motive for its use is less straightforward. It may be used as a way of introducing a once-for-all price cut, in which case it is not a legitimate sale. Or it may be used to condition buyers to a coming in price; the number of cents-off is slightly more

than the price increase is to be, thus inducing consumers to buy at a reduction but subtly conditioning them to the coming new price. We do not approve of this practice.

OTHER PROBLEMS

Modern supermarkets carry an enormous range of products. This range conveys market power to the retailer both with respect to the consumer and the processor (although a successful brand gives the processor considerable power.) Since the retailer controls shelf space be can bargain with any processor for use of that space—both as to amount and location. A recalcitrant processor will find himself with little, and poorly located, shelf space while the co-operative one will be better situated. Perhaps this suggests an explanation for the enormous variety of some brands in some stores and the total absence of some products like economy lines of meat, cereals or produce. The same consideration may lead to especially co-operative suppliers being able to persuade the retailer not to allow any space to competing, and perhaps cheaper, lines. We do not know whether processors have to buy shelf space, in one way or another, but we wonder why so much time is spent by high priced detail men, for the processors, arranging shelves and displays when lower paid clerks could do it.

The retailer's power arises out of his close contact with the consumer and his ability to juggle indefinitely the prices and conditions of sale for his many products. Two points concern us here. First, the retailer can use price-comparison items to keep the consumers coming in by pricing them low. He then makes up the losses on less sensitive items, often staples which loom large in the budgets of poorer people. Second, we have now had three reports from careful and knowledgeable people suggesting that food retailers know the items in the D.B.S. for price index, and keep prices low on these, marking up the loss elsewhere. None of the reporters has had the opportunity to fully verify his findings. We urge this committee to check this practice. If retailers are using the power their great range of products provides them in this way then the rise in food prices, as officially compiled, understates the problem. We do not know to what extent, if any, retailers abuse the power they have. Accusations are frequent. We urge this committee to investigate further, for the health of this important industry as well as for the safeguarding of consumers.

CONCLUSIONS

We do not have any specific recommendations to make as a result of our appendix presentation. Some would seem to be evident in what we have said, especially with regard to self-cancelling but cost-increasing practices. It would seem appropriate to urge the committee to request an investigation on a much larger scale than has so far been undertaken. We believe that most of the participants in the food industry would like to have the air cleared. We know that consumers need protection where necessary and re-assurance where it is not.

It is by now trite to say that the consumer is sovereign. If the consumer has full information, knows how to act on it, and can count on being fully served, such sovereignty has meaning. However, much of the burden of these comments is to argue that the consumer is not well-informed or fully served. Increased reliance on price and quality competition would remove or reduce many of these obstacles which prevent the consumer from obtaining full value for his or her dollar.

Co-Chairman Senator CROLL: The committee has an opportunity this morning to give the universities a good going over. Here is your chance now. We have a representative from each of the three great universities, Carleton, McGill

and Saskatchewan, and those institutions are well represented. We will start with you, Mr. Allmand.

Mr. ALLMAND: I do not intend to give the universities a good going over, Mr. Chairman, especially McGill. Dr. English, in your brief one of your recommendations is that we have a Department of Consumer Affairs. Do you insist that this be a department, or are you more concerned with the job of getting it done? In other words, would you object if the same functions were carried out by a commission or something other than a department? When we heard from the Canadian Federation of Agriculture recently here they recommended these things be done but not by a department, that they would be more properly under a commission or a board or something that was not under a minister. May I have your comments?

Dr. ENGLISH: First of all, let me say that I am expressing a personal opinion, that I think that the royal commission system, if that is what you have in mind—

Mr. ALLMAND: Oh, no, a commission such as a permanent commission.

Dr. ENGLISH: The first point I want to make is that whatever is done should be done on a continuing basis. I think that royal commissions are an expensive way of doing something once and for all, and which become out of date in a few years time.

On this question, I think the difficulty with a commission is that the consumers' interests spreads over a very wide range of goods and services, obviously, and that no one commission is likely to have analysed, defined so broadly or has expertise in the various subject fields involved.

Let me illustrate. The present Registrar General's department has brought together at least two departments relevant to the consumer, namely, the combines law and its administration, and the patent law, which is long overdue for treatment as something affecting consumer interests and I think it will now receive that. It was not done in this case, for example, by bringing it within the combines law. The Food and Drug Directorate was not brought in, The Food and Drug Directorate I think should be brought into such a department, as we asked at the time, and that is quite a different sort of operation from the combines law. If you can put all those under a consumers' commission, you might say it has almost a departmental status already, if you bring the three together.

Mr. ALLMAND: The suggestion is that it would be more independent of politics than a department to come under a minister who is in the Government, that something like National Research Council, Science Council, or more independent boards or councils are more independent and separate from politics. I am not condemning either side, I am just asking your comments.

Senator CARTER: Do you mean they would not be bound by policy?

Mr. ALLMAND: No, that they would be more independent. A board or council is more independent.

Dr. ENGLISH: But is this necessarily a good thing? If agriculture and industry and labour have departments in which their particular concerns are discussed and analysed and the focus placed upon them, it seems to me that there is just as good or better reason to have a formal Cabinet representative of a department looking at the same range of issues, from the consumers point of view.

I would say this, however, that there is one important problem about having a department of comsumer affairs, and that is that not everything concerning the consumer can be brought under that department or there would be only one department of government.

Our other recommendation made at the time that we asked for a department of consumer affairs, was that there should be an interdepartmental committee on

this question. For instance, the tariff is of very great importance to the consumer, but really cannot be brought under a department of consumer affairs because it is a tax and part of the normal responsibility of the Department of Finance. It is not necessary to bring everything within the department, but certain things are primarily consumers' business, such as Food and Drug Directorate, along with other items in the Registrar General's department.

Co-Chairman Senator CROLL: But at the present time are there not four departments dealing with consumer affairs, namely, the Privy Council, the Registrar General, which has the responsibility of dealing with the matter of combines and patents, food and drugs, under the Department of National Health and Welfare. The Department of Fisheries has a department dealing with consumer affairs, and the Department of Agriculture has one. Do you know anything about them?

Dr. ENGLISH: Yes, I was not aware of the part the Privy Council plays. Do you mean the Advisory Council?

Co-Chairman Senator CROLL: The Registrar General, you would call it.

Dr. ENGLISH: In the sections of those departments, the Agriculture and Fisheries departments, devoted to consumer questions, I think the purpose of those divisions is somewhat different from what we have in mind. They want to take account of consumer interests. The consumer is a buyer of agricultural and fisheries products, but our concern is that the consumer be represented for himself, for his own sake. I am not sure, even in the departments of Agriculture or Fisheries, that this can be achieved at the same time as one has to look at it from the point of view of fisheries and agricultural communities. I think a department of consumer affairs could coordinate more effectively with the purchasers of food, including fish and agriculture, better than these departments. Those who represent consumer interests could do it better. With the best of intentions, these departments are still departments of agriculture and fisheries.

Mr. ALLMAND: Have you given any consideration to the constitutional difficulty of setting up a department of consumer affairs at the federal level? Let me make clear I am not opposed to the idea. I want to get the different viewpoints. The Federation of Agriculture gave us a different viewpoint. Have you considered the constitutional difficulties one might have in attempting to set up such a department? Have you made a study of that?

Dr. ENGLISH: No.

Mr. ALLMAND: Does your association have any opinion with respect to setting up a permanent price review agency or price review board which would continually take consumer prices under review whenever they were considered out of line?

Dr. ENGLISH: The association has not, at least as long as I have known it, had any position on that question. In fact, the general summation of the opinions we have expressed is that it is not wise to attack prices by control but rather by increasing competition and of course by the necessary corrective measures of fiscal economic policy.

Co-Chairman Mr. BASFORD: As an economist, what is your own personal view?

Dr. ENGLISH: My own personal view is in accord with that. I do not believe one could effectively control prices by a price control board.

Mr. ALLMAND: Some people have suggested a prices review board, that would not control but would make people explain prices, such as this committee does. We bring witnesses before us from manufacturing, wholesale and retail levels and we ask them to explain their prices and costs.

Dr. ENGLISH: This is all right. It is the sort of thing that the Economic Council is able to do also and has been doing. Prices, as I am sure is well recognized, are a surface phenomena that reflect a lot of different kinds of forces. Some of these are general demand forces which create inflation in wartime and sometimes in peacetime because demand exceeds supply.

In other cases, the price phenomena is the result of individual wage or price pressures resulting from the lack of completely competitive markets. There are two very different kinds of sources for price increases. What you are saying, when you are thinking of a price review board, is that this body would be concerned with all of the economic phenomena that arise to cause price increases or difficulties, and then you are back again to the Economic Council. To focus particularly on prices seems to me to be a little artificial.

Mr. ALLMAND: With respect to packaging gimmicks and sales promotion methods, all the criticisms that you have brought this morning we have put to most of the witnesses in the trade who have come before us. All of them have said that the only reason they have these things is because, when one competitor went into them they found they began to lose business if they did not. We had Gerbers and Heinz who came. Heinz said they tried to stay in tins in baby food and Gerbers had gone into jars. Heinz found their sales were falling off so they had to go into jars to bring the sales up again.

Last week, one of the soap companies told us they had tried to put out a low cost detergent called Four Square, which had no gimmicks and which was in standard sizes, with an even number of pounds in each pack, one pound, two pound, four pound. And they found it would not sell and the people were buying the fancy package instead.

Another witness had a product called White Breeze and another called Blue Breeze, They took the towel out of the White Breeze and immediately the sales fell down while those of Blue Breeze stayed at the same level.

What all these people were trying to tell us was that the consumer really wants these things, and that the consumer expressed the choice, when they were given that choice on the market, for the fancy product or the product with the gimmick and so on.

I am suspicious of these things, but these witnesses have had facts to counteract our criticism. Now, what is your comment about this?

Mrs. W. M. Auld, National Director, C.A.C., Chairman, Consumer Problems Committee, Consumers' Association of Canada: I would particularly like to speak about the incident of Four Square. Unfortunately, I was en route here and I have not really seen the accurate transcription of this, but I feel I should tell you my personal involvement in it. We heard from the Consumers' Association at national, that this product was to appear and we in the west alerted our members and said that when this comes, this is our opportunity to support standard size packaging. You might be interested to know that it did not ever appear in the west; it was sold only in one small test market, in London, Ontario.

Mr. ALLMAND: That is what they told us, but they said that wherever they sold it on the test market—in this case in London, Ontario—which was the only test market—it did not sell.

Mrs. AULD: Did they tell you how much they spent on advertising?

Mr. ALLMAND: Yes, they did, but I cannot remember this figure. They said that whenever they launched a new product—and this is reasonable—they have to try a test market because to produce for the whole country would be rather expensive in the case of a new product. They said that they tested two products —Four Square in London, Ontario and another product in British Columbia.

Mrs. MacInnis: Surf.

Mr. Allmand: A special kind of Surf called Square Deal. That and the other product called Four Square were tried in these test markets and they found very few people bought it so they had to take it off the market.

Mrs. Auld: I feel that I cannot comment on this because they really have much more material than I have. But other competitors are presently putting detergents up in 5-pound packages in quality packs and I think this has some bearing. If you look at our bulletin, of which there are some copies here, you will note a number of them are available now in even five pound packs. I think this has some bearing.

Mr. Allmand: Several of the detergents people had detergent in a sort of plastic bag, much cheaper than the detergent in the pack. I admit I have seen it in the supermarket myself and it is rather cumbersome for the housewife to open and close it and deal with it but it is much cheaper. People say they have a very difficult time marketing this type of detergent in the cheap, cheap container.

Mrs. Auld: You may be interested to know that I have been looking for this in Winnipeg, to try to find it. One of the problems they have to deal with and which exists is the problem of retail resistance. I admit it is a bit cumbersome to stand it on a shelf and the retailer really wants the package.

There are two things we have to bear in mind. Sometimes the consumer is not honestly given an opportunity for a very long time to get something, because there is this retail resistance and I do not think this is always recognized.

Mr. Allmand: What is your opinion of private brands, as opposed to national brands?

Mrs. Auld: As an association, I think perhaps we have not done any testing of private brands of detergents. We feel that as far as consumers are concerned, and we have consistently said so, they should be good shoppers and they should be willing to try the cheaper products. We feel they should not always buy the one product, that it is their duty as purchasers for their homes, to do what they would have to do if they worked for business, that is, they would have to try different products. We think that if private brands can give the consumer a better value for the dollar, the consumer should consider this. Does that answer the question?

Mr. Allmand: Yes. However, I want to know whether you did any actual testing on the private brands. In the case of fruit and vegetables, where you have fancy, choice, and standard quality gradings, you will find the fancy quality in a national brand standing side by side with the same in a private brand, but the national brand will be five to six cents more expensive. I have been trying to test them myself. It is true that both seem to be a good product. I am not in a position to tell whether one is better than the other, although there may be some preference as to taste. I wonder if your association has done any testing?

Mrs. Auld: I do not think we have. We have not been able to go into much food testing. Another thing you could bring out is the little known brands as opposed to the national brands. There are national brands, private brands and little known brands. In our own area in Winnipeg these little known brands are sometimes merchandised, not by large supermarkets but by smaller independent stores, to the great advantage of low income consumers. This is something which I had brought out very strongly last week when I was speaking to a low income group. They commented that they could no longer afford to shop in a supermarket, but that there were special stores, competitive stores, in their area with managers who had their best interests at heart and who were producing, and providing for them, little known but good products.

Mr. ALLMAND: In your magazine, do you mention the names of little known brands, if you feel that they are good products?

Mrs. AULD: We have not, up until now, but I may say that we are giving this very serious consideration at this time. This is something which has really been brought to our attention by the hundreds of letters which have come in, and we have done quite a lot of work at local levels across Canada. We have asked our local organizations to get close to the problems in there regions, and we do find that there are regional problems.

For example, I am surprised to find in the area where I come from that you cannot buy anything but red or blue brand beef in a supermarket. I understand that this does not apply in Ontario and Quebec. However, in Winnipeg, the meat counter is the pride of the supermarket. Supermarkets wish to have a very fine meat counter because this is the backbone of their business. They are concerned about bringing in brown and commercial grades of beef, because they feel that perhaps they will have problems with it. These grades of beef are nutritious. The officials of the Department of Agriculture say that they are nutritious, have good protein value and that there is nothing wrong with them. They are Government graded. But we cannot get them in supermarkets in Winnipeg.

Therefore, many people who are in an area where only a supermarket exists are deprived of the opportunity of getting better value for their dollar because of the corporate chains' national policy of carrying only the blue or red brand beef.

Mr. ALLMAND: That is all, Mr. Chairman.

Senator CARTER: Mrs. Auld, perhaps I might just continue where Mr. Allmand left off. Does your Association provide labels similar to Good-housekeeping labels, which would mark a product for the consumers so that such products would have your approval?

Mrs. AULD: No, we do not, sir.

Senator CARTER: Has the Association given any thought to doing so?

Mrs. AULD: I do not know whether you realize how closely this type of label is tied in with advertising and very high cost testing. You know that we are just a volunteer organization with a very limited budget. We are concerned about this kind of label which is tied to advertising. We feel that the independent test is the better way, and we just hope that we can get enough members to be able to do some more testing of this kind.

Senator CARTER: I would like to be clear on that. You do not think that the Goodhousekeeping label is a good thing from the consumer's point of view?

Mrs. AULD: I think that it is a bad thing, in a way. I think that sometimes people count too much on that type of label without putting enough effort into the purchase of the product to find out what they are buying.

For example, last week I processed a letter from the Maritimes in which a lady said that she bought a certain product, which I will not name, because it had this particular label. Well, she has had nothing but trouble with the product. In answering her letter I suggest that she write to the organization who guaranteed the product, because, obviously, she depended more on them than on really researching the product herself. She felt that the guarantee they had offered really was not worth much.

Senator CARTER: I was thinking of the little known brands to which you were referring when you were answering Mr. Allmand's question, because the consumer might be reluctant to buy an unknown brand. If the consumer has never heard of a brand and does not know much about it, he will probably conclude that he had better not experiment with it and, therefore, he will not buy it.

Mrs. AULD: Many times it may be just 15 cents, 30 cents, 35 cents. I think the consumer really has to do just a bit of work, because even though we tested it, there is still the question of individual taste. You and I know that I might not like the same quality of peaches that you like. I think that individual testing in this regard is really quite important.

Senator CARTER: I gather your funds are rather limited for your Association so that you could not indulge in advertising on behalf of the Consumers' Association.

Mrs. AULD: I guess we are one of the groups in Canada who owe a great deal to the advertising which the press gives in its news coverage. We are grateful for that, but as for advertising ourselves, you are quite right, it is too expensive for us.

Senator CARTER: You mentioned that there was retailer resistance to the large, 5-pound size packages of detergents. You suggested that this probably had an effect on the consumers' chance to buy them.

Perhaps some other witness would like to answer this question, but have you any knowledge of individual cases where shelf space has been rented to certain manufacturers or processors?

Mrs. AULD: I can tell you one place that I have been told of, but I must say that I have not been able to check this out. This information comes to us only from a letter and I suppose that is hearsay evidence. However, I was rather shocked at something I saw in an Ottawa store yesterday, when I was doing some purchasing for the Committee hearing. People write to me to tell me that they cannot see the charges going up on the cash register because there are magazines in the way. Coming from the West, I really did not know what they meant until I went into a store yesterday. I gather that this particular selling device, which is used for magazines, is rented to another outside agent by the store. The result is that the consumers, coming along with loads of groceries, cannot see the cash register properly.

A great complaint is that when there are specials they often are not marked on the cans, because this is an expensive thing and the retailer does not want to put two markings on his merchandise, so that often the merchandise is not marked. We have dozens of letters coming in telling about this situation and suggesting that the stores are being deceptive and are advertising goods for sale and then putting goods out unmarked and charging more for them. I do not really go along with that. I think it is a clerical error. The clerks do not know what is on sale. They should, but they do not always.

In the West, the corporate chain policy is that the clerk must call out the price and the cash register must be in full view of the consumer so that she can check every item as it comes out, and the clerk handles the items. This is her responsibility. Each consumer is supposed to stand there to see that she is charged the correct amount.

I have wondered about this problem reported from Eastern Canada, and I could not really understand why consumers could not look at the cash register until I went into this store yesterday in Ottawa, when I was so shocked.

Senator CARTER: Well, this particular shelf that was rented was rented to magazines.

Mrs. AULD: Yes.

Senator CARTER: I was referring to the ordinary shelf where the food displays and consumer articles are.

Mrs. AULD: Perhaps Dr. MacFarlane could answer that.

Dr. David MacFarlane, Professor of Economics, McGill University: I believe, sir, that the testimony given by Steinberg was to the effect that a sizeable part of their total advertising outlay is really, in effect, a contribution from, essentially, makers of national brands. I am just citing from memory, but I would ask you to check back to see if that is not in the Steinberg evidence.

Senator CARTER: I asked the question because I do not recall any of the companies that have appeared admitting that they actually rented space. We have asked that question practically every time, but I do not recall anyone having admitted that they actually rented space on a retail shelf.

Co-Chairman Senator CROLL: My recollection is the same as yours, Senator Carter. They have all denied it.

Dr. MACFARLANE: It gives the same effect. If some part of their total advertising outlay is in one way or another met by national brands, it is in effect a rental, call it what you will.

Senator CARTER: May I ask another question. Perhaps Mr. English will answer this one. You would like to see these gimmicks curbed or eliminated if at all possible. That goes for all premiums, in-pack and on-pack, coupons, promotional gimmicks and so on and so forth. Your argument is that they add to the cost. If we could find some means of eliminating them altogether by regulation or by law, how could we ensure that the savings would go to the consumer?

Dr. ENGLISH: Well, I think the point is very well taken. Of course there are two or three things to consider in this regard. We think we can see the problem and how to achieve a solution. The result was simply to increase their profits and if their profits are known—and they should be known because I think in most cases of this kind of business they are knowable—it is a source of embarrassment if the public find out they are making much larger profits which were in fact being hidden by promotional activities. Many of them feel that promotional activity does not get them very far and they would like to be relieved of this in many cases. That is one of the reasons for the implication that they are getting larger profits, they are getting rid of costs but at the same time have not reduced prices. As a secondary consideration they require less tariff protection. If you reduce tariff protection at the same time as you reduce their costs through limiting promotional activity you will achieve this.

Co-Chairman Senator CROLL: The Economic Council in their report mentioned this question of tariff protection. Let me follow what you have been saying by asking your views on this point. We have had evidence before the committee that a great number of people go for these gimmicks. Now, have you any idea of the cost of these stamps and these gimmicks? Can you give us an idea of the cost percentagewise? Have you made any attempt to find this out?

Dr. ENGLISH: There is no general answer to that because they are used more extensively in some products than in others. You can see the difference in American sources; the difference is 20 per cent for breakfast food cereals and 3 per cent for certain meat products. It is not a consistent thing.

Co-Chairman Senator CROLL: But can you come up with a general figure? We have heard that these add two to three per cent to the cost of food. Have you any ideas on that?

Dr. ENGLISH: I think they add a lot more to the cost of some foods than others because they are used more widely in some than others. There is no general answer that would have much meaning because certain lines of production do not use them at all.

Co-Chairman Senator CROLL: I am building up to ask this question; if it costs 2 or 3 per cent— let me put it this way; one witness before us said "If they

want to play games, give them games to play," but those that want the 3 per cent, why can't they have the 3 per cent? What is your view on that?

Dr. ENGLISH: I think the problem is one of doing anything we can to inform the consumer. In effect we have a very haphazard system of consumer information on this. If you compare the whole range of products which the consumer buys, you find a very wide variety and some products lend themselves to promotional activities more than others. For those that do not, the tendency is not there to rely on informing the consumer but on persuading him to buy these devices. Of course the producer may not always gain by this because they all do it—they have to do it to stay in the market with the others. To me there does not seem to me to be any way of reducing the heavy burden in these lines without some formal limitation. I think we are moving into the situation where we will have to impose some tax limitation on selling activity.

Co-Chairman Senator CROLL: The cost of these is passed on to the consumer in the final retail price. This has become evident to the members of the committee. What is your view as to the extent to which prices are increased by this?

Dr. ENGLISH: In some cases it will be 20 per cent and in others it would be 5 per cent. In other cases it would be 1 or 2 per cent—it depends on the product. On most consumer goods I do not think it will be more than 5 per cent.

Co-Chairman Mr. BASFORD: Going back to the question of promotional gimmicks, the Stewart Commission in regard to stamps said that the purchaser should be allowed a cash rebate on price?

Dr. ENGLISH: I think this is fine, if you can achieve it. But I think the evidence cited here about Breeze and other things indicates that from the producer's point of view he gets more results from the gimmick than from the cash rebate. If you can engage in a massive consumer education program, I think more money should come from government towards the cost of consumer research. Think of the millions spent in this? In the United States $2 billion are spent on this kind of activity. How much can the Government put out to counteract that? I am tending towards the view that some kind of formal limitation on what can be deducted from taxes for promotional activity will have to be considered. The consumer is not given a great deal of choice. You don't get as much attention paid in advertising to the rebate as you get to the towel. From the individual producer's point of view it is quite impossible for him to make the break from the practice. It is difficult for him to say "I am going to be the one to break the practice," particularly if the rest are going to continue. That is why in my view we are moving to the position where we will have to limit tax free promotional activities.

Professor R. E. Olley, National Director, Consumers' Association of Canada: I would like to read a quotation from a speech made by Mr. R. D. Wolfe, President, The Oshawa Wholesale Limited. He was referring to supermarkets when he said, "Many offered as additional incentives, prizes, premiums and contests and ensured that all would be aware of these attractions by saturation advertising in all local media." This supports the point Dr. English was making that very often the consumer does not know about the alternative of lower prices because most of the producers are drawn down to the lowest common denominator in this regard. They cannot afford to let their competitors have the one jump ahead.

Co-Chairman Mr. BASFORD: I take it you regard the Stewart recommendations as minimal?

Dr. ENGLISH: I think they probably expect too much.

Dr. MacFarlane: On the question of gimmicks, I think it is quite clear that many of these things are ending the competitive framework for the food distribution food industry. The gimmicks are clearly non-competitive and I think it would be within the competence of this committee to say that it believes in a competitive market and to recommend that something should be done to abolish certain of the more notorious practices.

Mr. Urie: I had a supplementary question I would like to ask with regard to the comments by Dr. English. This is not intended to be critical, but looking at page 13 of your brief you say "The repeated expenditure of large sums on advertising and other promotional activity serves to raise barriers to competition by new producers and distributors and to stabilize the relative shares of the market supplied by particular suppliers." Now I would have thought, and you can correct me if I am wrong, that this would have tended to direct the consumer to the larger advertisers and therby even further limit the possibilites of the smaller firms coming in, unless, of course, you intended to say there would be a blanket sum of "X" dollars permitted to be expended on advertising promotion by anybody in the industry.

Dr. English: Something like election expenses, is it not?

Mr. Urie: Yes.

Co-Chairman Mr. Basford: We do not want to get into that!

Co-Chairman Senator Croll: All I can say is it would work about the same way.

Dr. English: I think there are two types. From Professor Olley's remarks, I think I should make it clear that there are two types of promotional activity here. One is the whole range of gimmicks—cents off and this sort of thing—which could easily be banned, I think. That is the obvious solution to that. In fact, in some cases they are moving in this direction now—in the case of cents off. The other sort of thing is advertising. In the case of advertising it is clear that it serves an informational purpose, but I do not think you should draw too big a distinction between advertising and the other, because it favours the larger producer, and what you want to do is not to cut out all advertising but to limit it in such a way that the potential newcomer has a chance of overcoming the enormous advantage that the established firm has. This is also good in prompting the established firm to be more competitive.

Mr. Urie: How do you limit it?

Dr. English: By setting a limit on the amount to be deducted from income tax.

Co-Chairman Senator Croll: Let us consider that—by setting the amount you can deduct from income tax. From the evidence we have gathered here, it is my impression you could set any amount you liked with respect to deductions from income tax, and in order to carry on their promotional activities they would spend the rest on their own and add the cost to the product. That has been my reaction to the evidence here.

Dr. English: Yes, if they can. There are other ways of limiting the amount. After all, you are suggesting they can raise prices indefinitely. If that is the case, we have a real monopoly situation, and that calls for tariff reductions, and so on.

Mr. Joyal: A price raise would reflect the demand push or pull all the time.

Dr. English: Well, that is another factor.

Mr. Urie: I do not think, with respect, Dr. English, you have really answered the problem. If, for example, a new company called "X" wants to enter the market and it has $300,000 to spend on promoting its products in the first year, are you suggesting that of that $300,000 it has it should be limited to 10 or

20 per cent for purposes of promoting; and that its competitor, which has been in business for a long time and has $2 million set aside for the same purpose, should be limited to 10 or 20 per cent of this $2 million for purposes of advertising? That seems to be putting it right into the hands of the large one.

Dr. ENGLISH: You do not need to design it that way, but in terms of the amount which is free of this kind of limitation. If you set that limit at $500,000—and this is a large amount of money, and I am not suggesting that is appropriate, but if you do, the man with $2 million would certainly be affected more than the newcomer.

Mr. URIE: That is exactly what I was driving at.

Senator CARTER: I have two more short questions. You mentioned, Professor English, about the impact of our income tax structure on the real income of people within certain income brackets—that it weighed more heavily on some. You implied there should be some sort of adjustment in our income tax structure to offset that. Could you give a little more detail as to what you have in mind?

Dr. ENGLISH: Perhaps Professor Olley would answer that.

Professor OLLEY: What we had in mind was—if I can start a little behind your question—that it is difficult to say precisely what are the principles of public taxation, but evidently they are a combination of ability to pay and ability to extract in some way. One of the principles which seems to be embodied in our tax structure is that every citizen of the country is entitled to certain sorts of minimal amounts of income free of tax, beyond which he will begin to pay a progressive rate of taxation. It seems to be combined equity and ability to pay in some sense. When the tax exemptions were set up they were set up in an environment in which the structure and prices were at one level. The level of prices has risen while the tax structure has remained unchanged, which means, in effect, what is creeping into the taxation system, and is creeping in without being noticed, is the idea that the minimum level of exemption should be steadily reduced in real terms. In other words, the quantity of goods the $1,000 basic exemption would have bought back in 1949 is now reduced, in terms of 1949 goods, to something like $640. We are, in effect, saying, or the tax structure is, in effect, making us say, that we are willing to reduce that basic exemption to which we feel all people are entitled for the reasons the Canadian Government holds or has held.

The appropriate revision, to correct back to the original real exemption that was intended, would be to increase the basic exemption so that the real buying power of the basic exemption would be the same now as at the time it was introduced, if, in fact, it is our intention to maintain that degree of tax equity in the structure. To do that would be fairly simple conceptually, but mechanically difficult. It would be a simple solution. All the tax people would have to do would be to calculate the appropriate change in the exemption to restore the real purchasing power of the exemptions to that which they were at the time they were originally struck, and set up new tax schedules.

Senator CARTER: You are saying you would increase the basic exemption by the equivalent of the rise in the cost of living?

Professor OLLEY: Yes.

Senator CARTER: But I do not see how that would take care of the problem that you cite in your brief—and you give two examples there—because it does not matter at what level you set it, because the problem arose from the fact that the increase in the price level was faster for some income groups than their increase in real income, and no matter what level you take, that would obtain. It is the change in the price structure that causes the problem.

Professor OLLEY: I think you have two problems here. In the first place, there is the question of the maintenance of the original intent of the tax exemption structure. We may or may not wish to maintain that as a nation, but it is my view that our thinking about those exemptions has not changed, and we still do feel there are certain exemptions to which people are in some sense entitled. The real value of those exemptions has now changed. The points I made earlier apply to that question.

The other question I think you are also raising is that there are some groups of income earners who find their incomes rising at different rates from other groups of income earners. That is to say, people who earn incomes from industries whose wages are highly price sensitive—either unionized or because workers are highly mobile—their incomes rise more rapidly than those of people in less price sensitive industries.

Senator CARTER: The group you refer to in your brief is that particular group whose income did not keep pace with the rise in prices because of the tax structure.

Professor OLLEY: But that is only one problem. That problem can be cured. I think that problem could be cured by—I am not sure of the mechanics within the Government, but by a change in the basic deductions permissible under the Income Tax Act. The other problems, the problem of income earners whose incomes do not rise as rapidly as the price level for some reason or another or whose increase has come after a considerable lag, that is a separate problem and not one I am sure we can do anything about in a direct legislative sense. If the economy were perfectly competitive in every sense of the word, if all workers were mobile and perfectly informed and through their training were perfectly transferable between jobs, there would be no workers of this kind. But, of course, these criteria of perfect competition does not apply, and that problem of increasing mobility and the generality of skills is in the province of the Manpower Department and not of the C.A.C.

Mr. O'KEEFE: Dr. English, do you know that some of the larger American supermarkets, particularly Safeway, have decided to abolish games, gimmicks, stamps and all that kind of thing?

Dr. ENGLISH: Yes, I happened to read in the Montreal *Star* last night—

Mr. O'KEEFE: I understand that this was brought about by the boycotts and effective consumer groups, such as this?

Dr. ENGLISH: Yes.

Mr. O'KEEFE: Have you any comments to make on this?

Dr. ENGLISH: As you know, the consumer protest movements in Canada were not at first associated with the Consumers' Association, although many of our locals have co-operated in the protest movement. But, I would like to say that the protest movements have been quite effective in causing the distributors to think again about some of their practices, and more effectively so than some of us would have expected earlier. I am very pleased to say that the consumer protests have been working out so well. I hope this encourages them to go on, and to support the work of the C.A.C. in the longer term. I would like to say that because I think it is important that we relate ourselves to that particular activity which has been so effective, and which we have supported in our local organizations.

However, I think it is important to understand that consumers, like everyone else, just cannot constantly be at protest meetings, and that is why we have legislation and other government action to ensure that certain practices do not come creeping back in when you look the other way for a while. This is a relationship I would like to establish.

Mr. O'KEEFE: I would like to know what will happen to the value of those games and gimmicks. Do you think it will be passed on to the consumer? Have you any way of ensuring that, in your group?

Dr. ENGLISH: I think there is a good chance that a lot of the benefit will be passed on. I noticed in the article in the Montreal *Star* of last night that there are two paragraphs, one following after the other, which are rather amusing. The first one says referring to the games:

> "They've run their course," said Robert A. Magowan, Safeway chairman. "We don't think they have raised prices, but if the housewife thinks that, we won't fight her."

Then on the next one says:

> Purity Stores Inc., an 84-store chain in northern California, dropped its sweepstakes games earlier, and offered a choice of blue chip stamps or a cash rebate of slightly more than 15 cents on $10.

That seems to be a clear refutation of the statement by the Safeway chairman. This is, I think an encouraging sign, and I hope it becomes more general as time goes on.

Mr. O'KEEFE: On page 2 of your appendix, in talking about those same gimmicks, you say:

> For the industry as a whole they do not increase sales, but add to costs and limit consumer choice.

Have you any proof of this, because we were told the very opposite?

Dr. ENGLISH: Where is that?

Co-Chairman Senator CROLL: Is it on page 2 of the appendix, Mr. O'Keefe?

Mr. O'KEEFE: Yes.

Dr. ENGLISH: I have some thoughts on that myself, but perhaps Mrs. Auld would like to speak to it.

Mrs. AULD: I did not get the question; I am sorry.

Dr. ENGLISH: The question is: Do we have any proof of the statement here that gimmicks as a whole do not increase sales but add to costs and limit consumer choice.

Professor OLLEY: May I speak to the question?

Co-Chairman Senator CROLL: Yes.

Professor OLLEY: The point we were making—and this is a point on which the U.S. National Commission on Food Marketing has spent considerable time—is that during the time that the American supermarkets' methods of merchandising food were being finalized it was possible for any given supermarket and the supermarket industry as a whole to increase its sales through the use of all sorts of things that attract customers away from the more traditional merchandising media. However, once the bulk of food merchandising is concentrated in the hands of the supermarkets then it is no longer possible for that industry to increase its sales through the use of gimmicks. I believe that the U.S. commission came up with a similar conclusion. It is not possible for any individual supermarket to increase its sales through the use of gimmicks because if the gimmick works then every other supermarket will use it, and that will simply offset whatever gains that supermarket made from the gimmick—that is, if all the supermarkets use the gimmicks.

The gimmicks, of course, have costs, and these costs are somewhere recovered in the structure of prices that the consumers have to pay. So, when the

industry's costs go up with no gain in sales, or a very insignificant gain in sales, then these costs must be handed on to the consumer if the supermarkets are to remain in business and earn reasonable profits.

Mr. O'KEEFE: That is an answer, but it does not completely satisfy me. On page 5 of your appendix, in connection with the retailer, in the second paragraph you say:

> He then makes up the losses on less sensitive items, often staples which loom large in the budgets of poor people.

Have you any instances or proof of this?

Mrs. AULD: We have received from across Canada many inquiries about this. It is felt by many consumers that when the advertisements come out on a weekend—and some of the people have pointed this out to us—that often the staples that they are interested in are not included.

Mr. O'KEEFE: Would you mention two or three staples?

Mrs. AULD: Well, one of the things that has kept coming in and coming in—and I really cannot answer this because I have not the background knowledge available—one of the products that has been mentioned, I suppose, 20 times in the letters I have received is rolled oats—just ordinary cooking porridge oats. I have not got the price details at my hand, but I have found from the letters that come in that there is an agreement among them. One woman pointed out that they were 42 cents for five pounds in 1961, I think she said, and they are now 83 cents. If you look at the D.B.S. figures with respect to corn flakes and some of the other cereals you will notice that they are not really going up by as much as that. The consumers want to know about this.

One woman has written in to say—and this points up another question, if I may speak to it—wanting to know how much she is paying in the price she pays for ordinary rolled oats of the promotion costs of instant oats, and all these new sorts of developments that have come on the market.

We have no access to this sort of information, but there is a very deep-seated feeling among many consumers that this is happening. They talk about flour and ask what has happened to the flour prices. Of course, we are selling a lot of wheat, as you know, but on the other hand it is interesting to note that the prices of other products have not gone up as well. They are asking: Is our milling industry efficient? Are we getting full productivity out of the milling industry? Is the productivity in respect of rolled oats decreasing? Is it because that rolled oats are not popular that we have gone into prepared breakfast cereals which are now getting all the attention in the advertisements? Have the manufacturers of rolled oats found themselves in a declining market to the point where they are no longer producing an efficient product?

These sorts of things affect the lower income consumer, and some of these people who have been in the protest group in our area comment on the very great increases in macaroni in the brown box, as they keep saying. This is not advertised. It comes in five-pound and ten-pound boxes. The consumers are disturbed about the increase in price of this product. They cannot help but have the feeling that somehow or other it is connected with the promotions of other more fancy product lines.

We talk about the dollar being a vote. This is a slogan we use in our organization. We say: "Use your dollars wisely. Vote for the product which you want to win. If you keep voting then this is what will happen". But, if you look at it from the point of view of the low income consumer then you will see that he has not as many votes as the affluent consumer who can wheel his shopping basket up and down the aisles of the supermarket, pouring everything into it.

The affluent consumer has got the votes, but what happens to the low income consumer. He has not got the votes in dollars sufficient to keep his product on the shelves.

Then, we have this kind of thing. This is a product which I use in my own home. I like it. It is Borden's Hot Chocolate. The price of this product is 69 cents for one pound. Now, in a small store, not a supermarket, in my area a gentleman brings it in for his customers and it is two pounds for 49 cents—one pound for 69 cents, two pounds for 49 cents.

Mr. O'KEEFE: The same product, the same brand?

Mrs. AULD: I can hand it to you. It is Borden's Instant Hot Chocolate. I have not discussed it with Bordens, but it seems to be the same thing. It is a good product for low income families, because it is not like one to which you have to add milk, but you add water. This is a low income family need. I have shown this at various meetings, and people are shocked and say, "Why can't I get it? There is not one supermarket in our area which has seen our product." Perhaps it is because the customers like the canned one.

Now, we have to have the five pound package of oats which is rapidly disappearing in favour of the three pound box. Before we talked about the soap falling over, and other things, and this business where we have a box as I am showing you. This is Lipton's Chicken Noodle soup, which used to come in a little package on the shelves, and we think it is less expensive, and we can't believe this outer carton is necessary. The retailer says that it takes up more self space. He says, "Don't ask me to put in another line, don't ask me to put in instant cocoa, because I have already put in the other one." But look at the packaging magazines. They say, "This is the package for your product, it takes up twice the space on the shelf and gives you twice as much room for you to look at." We have big boxes coming in, more expensive like this one.

Mr. O'KEEFE: What is the difference in those two sizes?

Mrs. AULD: This is the one we like, 12 ounces, 12 biscuits (Nabisco Shredded Wheat). I was shocked when I came to Ottawa, because we haven't this new size. We now have 18 biscuits weighing 15 3/4 ounces. It is a smaller biscuit, even though the picture remains the same—note closely. The box is bigger. You think it is a giant economy pack, but it costs more per ounce, more per biscuit even though the biscuit is smaller. I just don't know what they are doing to us and how they are trying to confuse us. There are all sorts of merchandise tricks that bother me.

Mr. O'KEEFE: I notice some tinned salmon—

Co-Chairman Senator CROLL: Let us not get into that for a moment. Are there any more questions?

Mr. O'KEEFE: There is one more. Do you not think it would be perfectly fair that the consumer take some responsibility?

Mrs. AULD: Absolutely.

Mr. O'KEEFE: For instance, even in the rolled oats business on the same shelf you see the ordinary rolled oats which must be cooked overnight, and also the other which is ready for breakfast in the morning.

Mrs. AULD: I would really like to challenge you on an income level. I am not talking about the affluent consumer, because I think the affluent consumer is able to look after herself in the market, but I found that I really learned a lot last week when I spoke to a group of consumers. They certainly taught me things. There was not one in that audience who didn't know about that five pound bag of oats, and they knew where to get commercial brand meat. These women are good shoppers because they have to be, and we just need to help them get more

information because it is not getting down to them. They need help, help from the Government. When we have products that are going to be in big supply, let us get it right down to their level where they can take advantage of it and not be guessing as to what they should buy.

Mr. O'KEEFE: One last question. Have you any evidence to suggest that prices are now being maintained by agreement? For instance, I went shopping this morning, and I think that I am a fairly careful shopper, and I am proud of it. I went to a drug store to buy some perfume. I asked if there was any discount, and the retailer said no, that he signed an agreement where the price could not be cut. They did give me 10 per cent.

Co-Chairman Senator CROLL: Do you mind leaving that, because there was a reference to the committee, and I intend to cover that. Mr. Klein?

Mr. KLEIN: It seems to me, Mr. Chairman, that what we might be suffering from is too much intelligence. Perhaps it is not the high cost of food but of intelligence. If I were to put the thing in a single phrase it would seem to me that to try to determine who is making a profit and causing a rise in the price of food, it would have to be the competition of the consumer with Madison Avenue. When I say Madison Avenue, I mean Madison Avenue in all its ramifications, which really makes the big profit and causes the rise in the cost of living. I think we need to have more common sense to combat the intelligence of the bright young men who are employed by Madison Avenue to think up all these gimmicks and deceptive advertising.

There seems to be one angle that is overlooked with respect to trading stamps and gimmicks, etc., etc. I am not so much concerned about the other aspects, although I am concerned with the added cost of the games to the product. But the games and the stamps do more than that, they make captive customers, and captive customers reduce competition, do away with competition. The person who is seeking a particular colour of stamp is not going to go to another supermarket that gives another colour of stamp. Therefore, the competition between supermarkets in my view is between stamps and not between the products. For instance, you will see a particular brand of tea is the same price in all supermarkets, but in one week one supermarket says that with this particular brand they will issue 50 stamps, and the other supermarket says it will issue 40 stamps with the same brand of tea. It would seem to me, too, Mr. Chairman—

Co-Chairman Senator CROLL: Could you come down to a question, Mr. Klein, please?

Mr. KLEIN: I would like to ask the committee whether it has given any thought to the idea that the stamp itself aside from increasing the cost, or the game aside from increasing the cost, is actually cutting down competition by creating captive customers?

Mrs. AULD: This is one of the things that the Consumers' Association has always tried to tell the customers. We have made some headway in this regard, because we do a great deal of speaking, and this is one of the things we try to show people and we are trying to encourage them a little further along in this line of thinking.

Mr. KLEIN: Has any thought been given to the isolated purchases made by a person who might go into one supermarket and on an isolated purchase gets stamps and throws them away? How many of such stamps have been thrown away which actually go to the profit of the stamp issuing company? Has any study been made of that?

Mrs. AULD: I think perhaps there is somewhere. But we worry about this and we tell people that if they do have to shop in a store that gives stamps for

some reason or other—we hope they don't, but if they do, they must take the stamps and be sure that they are used. We feel this is important.

Senator O'LEARY (*Antigonish-Guysborough*): The committee has obtained some information on this from several companies in respect of the number of stamps not redeemed.

Mr. KLEIN: I believe it is possible to return trading stamps for cash in most cases, is it not?

Co-Chairman Senator CROLL: Not on all products, not in Canada.

Dr. ENGLISH: In some cases it is, and this of course is a practice that the Consumers' Association has encouraged people to follow wherever possible.

Mr. KLEIN: I am asking about thousands of two dollar purchases in which the stamps should be of no consequence, but when you add those thousands of inconsequential purchases that are thrown away, this runs into a lot of money.

Co-Chairman Senator CROLL: Mr. Klein, the committee has some information on that subject and will have it before it.

Mr. KLEIN: I want to ask this question. Some reference has been made to selling at standardized prices. In order to illustrate this I want to go out of the supermarkets and food area, to indicate what develops. For example, when a gasoline company increases its price by two cents a gallon, every gasoline company makes a similar increase. Has any study been made of that? Surely this is an area, gasoline and oil, which has not yet been looked into and I hope this committee will look into it. If we think that food pricing is scandalous, I think the gasoline and oil companies should be looked into.

Co-Chairman Mr. BASFORD: It has already been suggested that we inquire into the price of tigers.

Mr. KLEIN: Has any thought been given to why, when increases are made in a particular industry such as that, the price is adopted by every single company and therefore there is no competition whatsoever.

Professor OLLEY: There was a study of that kind recently in British Columbia, an extensive inquiry into gasoline and oil pricing, which provided relevant information on these prices. The report is easily available.

Co-Chairman Senator CROLL: It was issued by the department less than a month ago.

Co-Chairman Mr. BASFORD: The witness is referring to a different one, a royal commission in British Columbia, the report is available from the provincial Queen's Printer in Victoria.

Co-Chairman Senator CROLL: The inquiry I was thinking of was made by our own Combines branch.

Mr. KLEIN: Was there a finding as to why they all increased at the same time?

Co-Chairman Senator CROLL: They had some observations.

Mr. KLEIN: Who made the observations?

Co-Chairman Senator CROLL: The Combines branch.

Dr. ENGLISH: In the United States, this industry has been considered by those who study it and there is what is called price leadership, when one company raises prices and the others follow. In the United States and Canada this is not an illegal practice at present and it would be very difficult to make it illegal, because that sort of phenomena is related to fairly normal competitive practices. Price leadership is normal.

Co-Chairman Mr. BASFORD: In your appendix, you say:

> ...We have now had three reports from careful and knowledgeable people suggesting that food retailers know the items in the D.B.S. food price index, and keep prices low on these, making up the loss elsewhere.

I find that a very alarming statement, if that is the case. How well founded is that statement?

Mrs. AULD: This is one of the things that come to light when the Press is good enough to give us some publicity. We find that individual consumers on their own have been carrying on research. Apparently, this lady made this study, which I have here. She became suspicious of the D.B.S. index back in 1962 and decided that while it may be talking the Government it was not talking her in her food budgeting.

She wrote to the government and got their list of prices. Since 1962 she has been working on this and has sent me her findings and I have them here.

We have tried to do something on this but as laymen we were told we could not do anything, because D.B.S. figures are weighted. She said she found many of these products maintaining a level and other things changing. This lady has concentrated on this and you are welcome to this study. What it tells her is that there is less competition on the ones on the list. If a cut of beef is on the list, it stays the same. She comments that it is amazing how chuck beef has been the exact same price from January 1, 1965 to January 1, 1966. It is the same with some of the others. At the same time, all of us notice in the papers that the prices seem to run "all over the lot". These things could only be investigated by a statistician.

Co-Chairman Mr. BASFORD: I would like to give that to Dr. James, whom I would call a statistician. (Document passed to Dr. James).

As you have undoubtedly seen, the members of this committee have concerned themselves very much with the standardization of weights and packages. One of the problems we found ourselves confronted with is that one can have standardization either in weights or in package size but not in both. That is to say you can have a standard size package in breakfast food or a standard weight package. If you have a standard weight package, the size of the package will be different, because of the differing density of the product inside. If you standardize the pound weight of cornflakes, all bran and cheerios, it will mean different sizes of package in each case.

Mrs. AULD: Yes but I have one example here which really involves the Government. We in the west call this exercise: "Do you want the small four-quart basket, or the medium size four-quart basket, or the large size four-quart basket?"

When you talk about standards, there is one method which slipped through. A consumer in Manitoba a year ago bought two baskets of peaches, this one and one like this (indicated). She bought them at different times and in different stores. Having consumed the contents, she took the baskets out to the garbage, as any housewife might. As she did so, she became conscious that they did not seem to be quite the same size. She brought them down to us. When we inquired into this, we were told at first that it was really a consumer's optical illusion.

We were not so sure about this. At that time we did not know how to measure but since then we have learned what to do. You put polyethylene inside and fill with rapeseed. As I say, we did not know what to do at that time, so you can imagine us with our rulers, trying to measure the volume and we did not come up with anything by that means.

Finally, in January of this year, we persuaded the Government inspectors that we really were not fooling and we wanted them measured. They picked up

four baskets from the trade and the four baskets came back about May. It took about four months to get them done. However, they got it done and they came back and these are the measurements of the four baskets:

209 cubic inches
239 cubic inches
267 cubic inches
299 cubic inches

They should be 270.5 cubic inches. Therefore, the consumer buying by volume—which is something we consider should be done—you have to get a well packed one to make a buy in a volume pack—when she bought the smaller ones she was not getting her money's worth, as you see.

In June, we found this occurring again. Finding it once was bad enough, but finding small baskets back on the market was irritating. This time I phoned the manufacturer. He said he did not have any idea that he was manufacturing too small a basket. In fact, he was a little concerned that I should call it "the small basket". I referred him to the Government and within a couple of weeks this basket (indicated) was produced—which, as you can see, was a bit larger.

We went on from there and thought we would never see the small one again. However, in September we saw it again. This time I brought a Weight and Measures man with me and we shopped for this size basket. This basket (indicated) had four pounds, 12¼ ounces, at $1.49; while this other basket (indicated) had six pounds 8 ounces, again at $1.49.

Senator O'LEARY (*Antigonish-Guysborough*): At the same time?

Mrs. AULD: On the same day. This is pretty tough for the consumer.

Senator MCGRAND: Was there any difference in the quality of those peaches?

Mrs. AULD: I would be something less than fair if I said I thought there was. I do not think there was anything on the package that indicated that. However, as I was not happy about this, as you can imagine, I took this right to the person who packed it and he assured me he had sold me really good quality peaches and that they were worth $1.49. How about stores that get the small basket sent to them? This is not really fair to them. This happened a few years ago in Winnipeg. We had a real rash of this. We honestly did not realize that we were dealing with a small basket. We just could not understand why the Ontario peaches shipped across the interprovincial border always weighed so much more than the ones packed locally.

Co-Chairman Mr. BASFORD: Do you know whether those cases were reported to the Department of Agriculture and whether any action was taken or any prosecutions made under the Agricultural Products Stabilization Act?

Mrs. AULD: They certainly were reported.

Co-Chairman Senator CROLL: To whom were they reported? That is what Mr. Basford wants to know.

Mrs. AULD: We reported to our local government representative. Then it came through to Ottawa to their head. I do not think there were any prosecutions.

Co-Chairman Mr. BASFORD: Whose head?

Mrs. AULD: Was it Mr. Eardley?

Co-Chairman Mr. BASFORD: Oh! Mr. Eardley.

Mrs. AULD: Mr. Eardley of the Fruit and Vegetable Division of the Department of Agriculture. But the weights and measures people are really the

ones who have now taken some interest in this problem. This is an interdepartmental responsibility really, and that is how it slipped by.

Co-Chairman Mr. BASFORD: I think Dr. James should check with the Department and find out what happened in that case.

Mr. URIE: The interprovincial one, I gather, Mrs. Auld, from what you said, was the one closer to the proper size because, apparently, that is under the jurisdiction of the Federal Department. Is that right?

Mrs. AULD: I would like to say so, but at least one of the Ontario baskets was 239 cubic inches. However, they did not really ever tell us. They only sent us a covering letter saying that we were right. We never did get the information, but it will be in the files of the Department of Agriculture. We do think that interprovincial commerce was carried on with a basket perhaps 10 per cent less than it should have been.

Co-Chairman Mr. BASFORD: I am glad my question brought that information out, but that is not the answer to my question, which concerned densities. What suggestions or recommendations would you have on what is, to me anyway, a very perplexing problem? It would seem to me that you cannot standardize. You have to have standardization of either weights or packages, but you cannot have both.

Mrs. AULD: I cannot answer that. Really. I have not got the competence to do so.

Dr. MACFARLANE: It would be pretty obvious to choose weights rather than volumes for such things as dry cereals.

Co-Chairman Mr. BASFORD: The problem put to us by the manufacturers of breakfast cereals is that, if you are going to insist that all breakfast foods be put out in one pound boxes, they are going to have to have 17 different packaging machines putting up 17 different sizes of packages, all of which will weigh one pound. Because of the different densities of the products inside the packages, the result will be 17 different sizes of packages.

Dr. MACFARLANE: That is about the number of packages there are now.

Co-Chairman Mr. BASFORD: No, that is not correct.

Dr. ENGLISH: I think that it would be better to pay for a package not quite full, knowing that it had a standard weight, and have fewer sizes of packages, than to have 17 sizes of packages on the one hand and a wide variety of weights on the other. There should be a compromise. One can have three or four sizes of packages and have standard weights as a means of compromising these two positions.

Co-Chairman Mr. BASFORD: Another problem I will put to you is that under the Agricultural Products Stabilization Act the sizes of frozen fruit packages have been standardized, but the weights vary between 9 ounces, 10 ounces and 11 ounces. They are all the same size packages, but because carrots have a different weight from corn, for example, you have 8 ounces of carrots and 11 ounces of corn in the same size package. That is the situation under the Act. To standardize the weights is going to make three different size packages rather than one.

Mrs. AULD: I think we will have to give and take a little on this. I do not think we can be adamant about this. I do not know if this Committee has looked at the soap package sizes, but we just do not understand why in the same size box of heavy duty detergent one company has five pounds, another has four pounds and a third has four pounds six ounces. It is the same size box that I am referring to.

Co-Chairman Mr. BASFORD: They say it is cheaper to make the same size boxes, because then they only need one packaging machine and one labelling machine. Then after they put the product in it ends up with different products having different weights and this is their explanation. I would like your answer to that.

Mrs. AULD: Actually, these three products that I mentioned are the same product, you see. They are heavy duty detergents.

Co-Chairman Mr. BASFORD: But their densities might well be different. I do not know what specific products you are referring to, but I suggest that this is the case. For example, cornflakes has quite a different density from all-bran. This is a problem I think the Committee is going to be faced with. There is a limitation to the amount of standardization there can be.

Dr. ENGLISH: This assumes that you have to use boxes to package everything. Perhaps that is one question that needs to be raised. The Lipton's case is a good one to illustrate this point. If you use bags you do not have this problem. You can fold the bag over once and it will make quite a difference in the volume that you get into it. If you standardize the weight, people will not know what they are getting.

I think the tendency to use the box is partly creative of this problem. Boxes are used for everything, including things they are not appropriate for in terms of convenience and cost. I think this is one of the answers.

Professor OLLEY: May I add a comment, Mr. Chairman.

Co-Chairman Senator CROLL: Yes, go ahead.

Professor OLLEY: I think, with all respect to the question that was put, there is a bit of a red herring in it.

Co-Chairman Mr. BASFORD: I want to determine whether there is a red herring, because this is what has been put to us.

Professor OLLEY: Because it applies to inter-product standardization. I do not think the C.A.C.'s position has ever been that it wants automobiles and ginger ale in the same size package. The sort of problem that gives rise to concern is when you go to the pork and beans shelf, for example, and find that the package sizes vary considerably. There is a great variety of quarter ounces and single ounces between cans, that are obviously used by the manufacturer as a means of raising his price per unit of weight without raising his price per unit of sale, but which would make comparisons between different brands of the same product or different can sizes of the different product very difficult indeed.

For example, right here, looking at these Nabisco shredded wheat boxes, the consumer is faced with these two packages, one being a 15 and three quarter ounce package, and the other being a 12 ounce package, would have to be quite learned to be able to compare them and get an accurate comparison. If he did so, he would discover that the large box was more expensive per ounce.

We feel that discreet sizes at a significant difference would help mitigate this problem; but we do not want inter-product standardization by any means.

Co-Chairman Mr. BASFORD: Mr. Chairman, I have quite a number of questions, but I will pass on.

Mrs. MACINNIS: Mr. Chairman, I am very much interested to see that both the brief and the witnesses have expressed great concern over the fact that there are low-income groups on whom this whole matter of prices bears most heavily. I note that low income groups are not necessarily wage earners. As a matter of fact, the Canadian Welfare Council is now conducting a survey into patterns of consumer spending and other matters in connection with low income groups. I would like to find out just what, if anything, your Association has in mind, other

than trying to change the tax exemption, which does not really hit the bulk of the lowest low income groups. What other mthods have you for the protection of the low income consumer?

Dr. ENGLISH: Well, I think this is a very difficult problem. I think this is one of the reasons we have not been too specific on it. The obvious group which comes to mind is the old age pensioners.

Mrs. MACINNIS: Or people on welfare.

Dr. ENGLISH: Or other people dependent on welfare or transfer payments from other sources. The method in the past was a crude one, namely periodic adjustment upwards of the payments, and is probably the minimum requirement needed to meet this situation. That is, periodically, there should be a review of the meaning, in terms of real goods and services, that the payments made to these people involves.

Mrs. MACINNIS: Would you then favour a recommendation that pensions and social allowances should be geared to a cost-of-living rise or otherwise?

Dr. ENGLISH: I think this is hardly an administrative problem.

Mrs. MACINNIS: But does your Association think that this is a necessary form of protection for the low income group?

Dr. ENGLISH: The Association as a group has not taken a view on that specifically, because the techniques present real problems. However, I think the principle of adjusting the fixed incomes upwards in response to changes resulting from inflation is a principle which has to be adhered to.

Mrs. MACINNIS: Let me be a little more specific. Dr. English, you made reference to the consumer branch of the Department of Health and Welfare. As you know, they have a food guide in which they set out those elements of milk, fruit, vegetables, bread, cereals, meat and fish which are required to make a good diet.

Are you familiar with that? Or perhaps I should direct my question to Mrs. Auld. Do you believe these low income groups with today's prices are able to get all the food necessary to ensure a full and adequate diet?

Mrs. AULD: I am not sure that I can answer that question in its entirety. If I cannot, perhaps one of the gentlemen can elaborate. I did endeavour at our level to discuss this with the Family Bureau and asked them what they were doing or what was being done in this area, because they have families under their care. They did indicate that it was very, very difficult at times especially when there were four or five children, particularly where milk needs were concerned. Now I am speaking not as a consumer because I happen to be connected also with the Family Bureau and I know of the concern of the people there.

Mrs. MACINNIS: Some people have said that women instead of buying wisely buy frilly things like potato chips and pop or something like that. Have you formed any conclusion as to whether low income people instead of getting good solid food go off and mostly waste their substance on riotous frills?

Mrs. AULD: As in any other place there is no such thing as an average consumer. The group I spoke to last week were perhaps more average of their group but I felt very strongly that they did this, and they knew for example an apple drink was not as nutritious as an apple juice and that it took twice as much to make up the required amount of vitamin C. I think you will realize it is difficult to reach some people whether they are affluent or on a low income. It isn't easy sometimes to get across to them.

Mrs. MACINNIS: Have you come to the conclusion as an association or otherwise that there was need for supplementing the food or income to get food for low income people?

Mrs. AULD: Well, I think Dr. MacFarlane could answer this.

Dr. MACFARLANE: In the Montreal Diet Dispensary which works with all welfare agencies and is concerned with low income people who are not of necessity on welfare, it was proved beyond any possible doubt that low income groups cannot get an adequate diet. If you want a witness to that you can have Mrs. Aggie Higgins of the Dispensary.

Mrs. MACINNIS: Your association has not come to any conclusion as to what could be done about this situation?

Dr. MACFARLANE: No, the association expressed the wish that there should be a Department of Consumer Affairs, and that this should be one of the issues taken up. Perhaps because of the lower education standards among the low income groups they cannot do as good a job in shipping as others can do. That is why it was suggested that there should be a Department of Consumer Affairs which would research the situation and provide information as the D.N.H. & W. is doing and to emphasize, especially in schools, what is a minimum nutritional diet. This is good but it doesn't go far enough. There are many other things such a department could do, but this is one.

Mrs. MACINNIS: Do you yourself believe that for the protection of low income groups it is desirable to limit advertising and to outlaw some of the abuses in packaging and gimmicks?

Dr. MACFARLANE: It is especially important for low income groups that deceptive practices and practices that mislead rather than help the consumer should be ended. They are more confused even than affluent people.

Mrs. MACINNIS: I would like to say that there has been a great contrast in the briefs we have had before us. When manufacturers and processors have been before us we have had solid balance sheets and the type of evidence to build up a case. Today we have had an entirely different approach. However, the thing that struck me is the very great weakness of consumer organizations, and I am thinking now of consumer education. I am wondering whether your organization thinks that a consumer department could do the whole job or whether there are other methods of consumer education that should be thought about by this committee.

Dr. ENGLISH: Can I make a comment on this? It has always seemed to me to be well worth while considering giving the kind of support to an independent body such as the Consumers' Association that will enable it to produce a list of products available in any particular line with the essential particulars so that people could have information on which to make a choice. This should receive wide distribution so that people could, as a starting point, see which products are in fact lowest in price. This does not mean that one can always tell people everything they want to know about quality. It is very hard to give all particulars about quality because some of it is a question of taste which varies from individual to individual. But if you had basic information about price and weight for particular brands of products available which could be circulated to consumers, this would be a starting point particularly for the low income consumer. They could do a counteraction against the advertiser and producers who advertise extensively because they would be less effective in persuading the consumer to buy things where it was the gimmick that counted if the consumer had access to this essential information. I think only the first steps have been taken in giving the consumer basic data about products.

Co-Chairman Senator CROLL: How many members have you in your organization?

Dr. ENGLISH: The direct membership is about 20,000, but the indirect membership through other organizations like Womens Institutes, I would not know.

Co-Chairman Senator CROLL: And grants come from where?

Co-Chairman Mr. BASFORD: You mentioned in your brief about supplementary government grants.

Dr. ENGLISH: We receive a grant from the federal Government to the national association and some other provincial governments give grants to the provincial associations.

Co-Chairman Mr. BASFORD: Provincial associations get grants from some of the provincial governments?

Dr. ENGLISH: Yes.

Co-Chairman Senator CROLL: What is the federal grant?

Dr. ENGLISH: The federal grant is $30,000. Two years ago it was increased to this amount.

Co-Chairman Senator CROLL: And the provincial grants amount to what?

Mrs. AULD: We don't have a provincial grant in Manitoba.

Dr. ENGLISH: A thousand, in some cases.

Mrs. MACINNIS: What will be your answer to the groups who come before us and have said that by greatly increased volume they can make savings to the consumer and, of course, the greatly increased volume has to be secured by advertising and promotional gimmicks.

Dr. ENGLISH: Well, I think the first point is that for any particular new product this is, of course, true. You have to get a certain volume of the product before you can get the price down so that it is competitive with those products already on the market. It is not a question of a whole organization, but simply a question of an individual product. A second point to be considered is that the kind of advertising necessary to make that initial impact is nowhere near the total cost of advertising. It is not that advertising that we have objection to, put rather the kind of continuing advertising which, as they all do it, is only there in order to keep them from slipping back, because no one dares stop it.

Mrs. MACINNIS: What do you think of the legitimacy or otherwise of using these high-pressure TV shows on children in the homes usually in connection with day breakfast foods or Christmas toys?

Co-Chairman Senator CROLL: Mrs. MacInnis, you have not been reading *Maclean's!*

Mrs. MACINNIS: Well, let us take Christmas toys; it is equally good. Is it a thing we should call an abuse or a natural fact of life that cannot be dealt with?

Mrs. AULD: It is a very difficult thing to deal with, and I think it would be very hard to legislate, really. We find that some parents can actually cope with this better than others. I do not know if I can answer that, because this is something which has given us a great deal of trouble. I would like to say one thing, that the Consumer's Association, starting December 1, asks all members to watch this advertising, to monitor it and report to us any that they think is, shall I say, grossly deceptive—I think some of it is a little deceptive. But we would like to know, and we have managed on a couple of occasions a few years back to bring something to bear on a company whom we felt promoted his vehicle somewhat more extensively than it would do in actual practice.

Senator O'LEARY (*Antigonish-Guysborough*): I will be very brief, Mr. Chairman.

My first question is supplementary to those that have already been asked. Dr. English, we were discussing a moment ago federal grants and provincial grants—dues and grants. Are these the only two sources of revenue for the national organization?

Dr. ENGLISH: Yes.

Senator O'LEARY (*Antigonish-Guysborough*): Are there any municipal grants to local branches that you know of?

Mrs. AULD: I doubt that; we do not know of any.

Senator O'LEARY (*Antigonish-Guysborough*): To your knowledge, there are no grants made by any type of industry—I am thinking particularly of the dairy industry—to any local groups?

Mrs. AULD: No.

Co-Chairman Mr. BASFORD: The soap manufacturers do not give you a grant? It would be awfully good public relations!

Dr. ENGLISH: We do not accept support or advertising for our magazine.

Senator O'LEARY (*Antigonish-Guysborough*): My final question. Assuming you were provided with more funds—which I know you could well use—in what direction would you put these funds to use at the present time? What would you consider your priority objective?

Dr. ENGLISH: I think increased testing would be the biggest; this is the most expensive factor. The testing activities of the association got under way with the increase in grants before, and there is still so much more that could be done in increasing the amount of testing; and, perhaps just as important, getting the information out to a wider variety of consumers. If we had more such information and could get it out to a wider variety of consumers, it would not only build up our membership, but it would do more of the job.

Senator O'LEARY (*Antigonish-Guysborough*): What do you think would be the best media for disseminating this information?

Dr. ENGLISH: Our own *Canadian Consumer* is the first medium; but I think our participating organizations would be very important in this area. I think ultimately it would be desirable if, at least on an experimental basis, a wider group could be reached, partly for membership purposes. After all, if the *Canadian Consumer* were available to a larger number of people the cost per magazine would be lowered. That is one place where I could guarantee the contribution scale would be operative. If we had 100,000 copies going out, we could certainly sell them for less than we sell 20,000 copies.

Senator O'LEARY (*Antigonish-Guysborough*): If you had the budget would you use radio or television—or do you use them now?

Dr. ENGLISH: Usually our use of it is on a gratis basis, as a public service.

Mr. MCLELLAND: I think most of my questions have been asked. However, I was interested in those peach boxes. I understand the weight is determined on the boxes. Was there a study done as to the number of peaches in each box, or was it made possible because there were new varieties and in order to get 11 or 12 peaches in the box they had to increase the capacity?

Mrs. AULD: I think I can answer this question. Apparently, the design of the box, which is used for apples as well, particularly the small one, had no relationship to the growing of the fruit.

Mr. MCLELLAND: It was not determined by the size?

Mrs. AULD: No, because within a week they made a larger basket. I think they had worked out they had strength and also utility. I have some photographs of them, as they existed, with the peaches in them perhaps this might help but there were certainly more peaches in the bigger ones, of course.

Mr. MCLELLAND: I believe we have had some witnesses before the committee who said about some servings of fruit, where the consumer has halves or quarters. I wonder if this had anything to do with the number of peaches in the

boxes. This is the canned fruits I am talking about now. We had so many servings in the can. I wonder if that has had any relationship to it, with regard to the fresh fruit. In order to determine that, we have to have a standard number of peaches in the box in order to get the standard number of servings.

Mrs. AULD: I do not think so, and one of the problems in declaring the weight is that spys do not weight the same as McIntosh apples.

Mr. MCLELLAND: Has the association made a study as to where the most discriminatory or misleading packaging practices are being carried on? Is it mostly in the manufactured lines of food, such as cereals, fruit and so on, or is it just as noticeable in produce that comes practically directly from the producer, such as fresh meats, roasts, potatoes and so on?

Mrs. AULD: Could I have the first part of that question again?

Mr. MCLELLAND: I was wondering if your association has made a study of where the most misleading packaging practices are being carried on, in what variety of foods, the fresh or the manufactured lines.

Mrs. AULD: I am not sure I can answer that directly. With meats we have a continuing problem which I think is disciplined by the corporate chains themselves, in that we have been assured at the Consumer Association level that if we have reports of packaged meats, for example, which are a source of great concern to some people, that the best side of the meat is up, and if the side hidden is not really as good as the one on top, they would like to hear about it. We have this concern by the corporate chains to protect the consumer in this way.

We have some concern about the packaging of fruit, and we are not too sure just to what extent the shape of the basket affects this. It is interesting that you bring up this question of shape, because some peach and apple baskets are shaped with the sides going in, and the producer tells us naturally they have to put all the small items in the bottom because the bottom layer is smaller. This is something which some consumers find deceptive. In other words, the bottom layer of the peach or apple basket has some fairly small fruit which is not representative of the ones on the top layer. Whether this curve of the basket is by design or accident, I do not know. These (indicating samples) are straight sided, so this would not apply to them.

Co-Chairman Senator CROLL: I have two questions, and then we will get back to the second round of questioning.

One of the things that troubles me—and I think it is troubling some members of our committee—is that we have had a very healthy and active and concerned protest group in the country consisting mostly of women. Why have not their protests been funnelled and channelled through your organization?

Dr. ENGLISH: To some extent they have, of course; but the membership of the association is not by any means universal. It is a very small membership by comparison with that of other organized groups. The consumer is more difficult to organize than any other individual, probably because there are more consumers than there are members of other groups. It is difficult to get them all in. We go to every part of our population. We would certainly not attempt to assert that we have had all the success we would like to have in organizing the consumer. People tend to think of themselves as producers first, and to go for higher incomes before they go for lower prices. I think many consumers have realized in the last few months that they should be active on both fronts. They have formed groups in areas, particularly among the lower income consumers. Some of these people have not been as aware as they should have been of the opportunities there are through the Consumers' Association work. I think they are much more

aware of it now because of the co-operation of local chapters of the C.A.C. with local protest groups. The tendency has been for them to take direct action, and then find that other people have been working along the same lines.

Co-Chairman Senator CROLL: When you find them in the field do you make an attempt to have them join in with you? You have been in the business for a long time.

Dr. ENGLISH: I think the answer can be best given by the ladies who are now present, sitting along that side of the room.

Co-Chairman Senator CROLL: But I am thinking of those outside of Ottawa.

Dr. ENGLISH: Mrs. Auld has been doing the same thing in Winnipeg.

Mrs. AULD: In the Winnipeg situation we held very early an informal meeting when our national president was in Winnipeg. The national president and myself went to meet with the executive or the core of this protest group in Winnipeg, and we had a most interesting evening. We really found that they perhaps did not quite understand some of the economic situations that were involved, and this was not surprising because I think most people are quite confused about the economics of what brought on these price increases. The Consumers' Association arranged a consumer forum and we invited them to attend it, which they did, and they subsequently indicated that they had obtained a good deal out of it. This forum was carried on by members of the university staff, and it really was an exercise in consumer education. It was for our members as well as the others.

Co-Chairman Senator CROLL: There are some protest groups in Toronto that seem to be on their own. Have you approached them? They are coming before this committee, and they want to be heard as well. We would like to have some clarification as to what you have made available to them so that the story is told.

Dr. ENGLISH: We find, Senator Croll, because we are a voluntary organization, that we really cannot continue on unless we have membership money. This is the way we go. We have not very much money, and they have found that the $3 membership fee is something that they could not pay. They felt that they could not as a group join this Association, although many of their people have actually joined C.A.C. since learning of our existence.

Co-Chairman Senator CROLL: They find $3 pretty high?

Dr. ENGLISH: Yes, much too high.

Co-Chairman Senator CROLL: You cannot do it for less than that?

Dr. ENGLISH: It is pretty hard, especially when we are producing a magazine. This is a big part of the problem. If we had 100,000 members then the magazine costs would be much lower.

Co-Chairman Senator CROLL: If you got 100,000 members at $1 apiece then you would be getting a little more powerful?

Dr. ENGLISH: That is right.

Senator O'LEARY (*Antigonish-Guysborough*): As an association you have not engaged in the boycott technique, have you?

Dr. ENGLISH: Well, it is hard to say. The national association is just an office of people with a board of directors that meets once in a while. They are from all over the country. It would have to be a decision of the local groups, and I could not say that the local groups have not engaged in it.

Senator O'LEARY (*Antigonish-Guysborough*): You have had no national policy favouring boycotts?

Dr. ENGLISH: That is right. The feeling was that our method which we have been practising for nearly twenty years, although more actively in the last five

years, is a better continuing method for the national association. But, we have no objection to the local associations engaging in whatever methods will represent the consumers' interests. If they feel that boycotts do this then that is their own decision as local chapters. We have not been against it, but we have not been fully supporting it as a national association.

Co-Chairman Senator CROLL: Let me refer you to page 6 of your submission, where in paragraph 12 you say:

> In addition, the general lack of competition in our economy, as a result both of the fewness of our producers and their protection from foreign competition, has permitted administered price increases that have added to the inflationary process.

Would you deal with administered price increases, because that is quite an important statement.

Dr. ENGLISH: Yes. Well, I think whenever you have inflation in an economy it means that there is a prosperous period with a strong demand pressure, and if you have few producers supplying any one line of product then under those circumstances it is not only a tempting but a common and understandable practice for them to raise their prices to test the market, to see how far they can increase their revenue by raising prices. I am sure that in some cases this takes the form of direct price collusive action. The Combines department has demonstrated in the past that this sort of practice takes place. But, we are not saying that every industry is engaged in direct collusion, because you do not need direct collusion particularly in situations where you have what we call product differentiation—where there is variety in the product—because in those circumstances even with some little differences in prices all producers can raise the general level of prices without agreeing among themselves, because price competition is not very vigorous. The more the big companies can raise their prices then the more the lesser known companies can raise theirs, although by not quite as much, and all can benefit from the general increase in demand.

One of the practices that is quite general in the Canadian economy is that of setting prices on the basis of the tariff—that is, taking the foreign price and adding the Canadian tariff, because that is the maximum price you can charge without inducing foreign competition. Also, it is an easily identifiable price level. If there is inflation in the United States, and if the Canadian practice is to set the price on the basis of the American price plus the tariff, then automatically prices in Canada go up when there is a rise in the American prices.

Co-Chairman Senator CROLL: But tariffs affect the prices of very few foods? I am thinking of the articles that are on display daily.

Dr. ENGLISH: I should think they would affect the packaged foods and soaps.

Co-Chairman Senator CROLL: Some fresh fruit, perhaps, but not soaps.

Dr. ENGLISH: Oh, yes.

Co-Chairman Senator CROLL: But they are made here in this country.

Dr. ENGLISH: They are made in this country, but they are priced upon the basis of what the tariff is even though they are made here.

Co-Chairman Mr. BASFORD: The western chairman does not agree with the eastern chairman on this.

Co-Chairman Senator CROLL: That is not the point I am getting at. No matter what the price is you have stated that this has permitted administered price increases. An administered price is a price fixed by the president of the board, or the chairman of the board, or whoever it is who is in charge of price fixing in any company?

Dr. ENGLISH: Yes.

Co-Chairman Senator CROLL: What you are saying, in effect, is—and we have often heard this—that there is price fixing at a level in this country that has not anything to do with demand or requirements, or anything else.

Dr. ENGLISH: I would not say it has not anything to do with demand, but if you have a period of depression—let us take a given industry that has three producers in it. In a period of depression they do not have much temptation to increase prices because they will not get much out of it. But, in a period of prosperity and demand pressures there is tremendous scope for the practising of administered price increases, and so the situation which exists through decades becomes important in a period of inflation. That is really what we are saying. The only way you can get at those prices—some of which involve direct collusion and some of which do not but are simply the kind of prices I referred to a moment ago—is through tariff changes, and other methods of increasing competition in the Canadian economy.

One of the methods of increasing competition is to try to reduce the amount of the so called non-price competition, the amount of gimmickry that affects all price competition, so that the firms become sensitive to price differences, whereas they are not sensitive to price differences if they can all resort to packaging gimmickry, and so on.

Co-Chairman Senator CROLL: But, in listening to these people—and I do not speak for the committee—I have obtained the impression that competition is pretty keen between them at all levels; that they are at each other's throat to some extent.

Dr. ENGLISH: I am glad you have raised that. This is a confusion of terms. What is meant by "competition". Industry always finds it difficult to explain this. When someone makes a remark like the one I have just made then industry says: "Oh, we are vigorously competitive."

I think what they are talking about is the kind of rivalry by which they maintain the balance of structure in industry; that is, they maintain market shares. The kind of rivalry is that in the non-price competition sphere. They steer away from non-price competition to the kind of product differential we have been speaking about, and they are vigorous in that kind of competition, but it is costly to them and to consumers as well.

The drug producers, among others, are anxious to get away from their normal emotional expenditures but cannot get out of the box, because if they do the other firms will benefit.

I think it is only by external protests of customers and of government that you can get away from the wasteful kind of competition where you have a handful of producers.

Co-Chairman Senator CROLL: Mr. Urie?

Mr. URIE: I would like to get back to the question of advertising. I think it has been conceded that there are certain fringe benefits which accrue to consumers from advertising through all media, that is, television, radio, and in the newspaper and entertainment reading field. Have you considered the impact of those fringe benefits, if in fact your suggestion that there be a reduction in advertising remains?

Dr. ENGLISH: I am the wrong person to ask, because I would be prepared to pay a lot more for entertainment rather than be interrupted every five minutes by the most expensive means of other entertainment. I would much prefer to have my cultural enjoyment uninterrupted, and to pay for it. I think we should pay more for our entertainment and less for our food advertising.

Mr. URIE: I am not being the devil's advocate on advertisers. These are suggestions which have been raised on many occasions by people who do

advertise, and you do not have to stick with television and radio. I suppose that the newspapers themselves are vastly subsidized by advertising and also the magazines, all of which would not be in existence to the extent they are today if the advertising were not there, and which is of benefit to the consumer. Now, if you reduce your advertising expenditures, obviously something has to happen. Have you in fact considered those impacts?

Dr. ENGLISH: Yes. In the first place, of course, I think we agree that the kind of limitation one might consider imposing would not eliminate advertising. What would it reduce it to? Well, if you have real information going out to the consumer, the kind of advertising that will then pay will be advertising that gives information, because it is competing with other information sources, through the Consumer Association, or the Government, if government is engaged in supporting that kind of information flow. Therefore, most newspaper advertising would be very little affected by limitation on advertising, since most local newspaper advertising has a large amount of information in it. What might ultimately happen is that it would not pay the newspapers to give the big splash advertising, but that they could concentrate on really informative advertising, which would probably take less space, as with British newspapers. They seem to be able to say more with less space in Britain and Europe generally. I think this is the sort of thing one might see in the newspaper business. I think the more serious criticism applies to national magazines and television because that kind of advertising is less informative.

Mr. JOYAL: I think what Mr. Urie means is that if you cut down on the advertising you need you are going to increase consumer spending in other areas, but there is no guarantee at all that that will reduce food prices. How do you know that if a limitation is made on advertising or promotion, it is going to result immediately in lower costs to the consumer, knowing that you are darn sure it is going to increase costs in other fields?

Dr. ENGLISH: I think that there is no guarantee of anything involving the future, but certainly if you reduce the cost of promotion and advertising to the producer, and take the appropriate action to insure competition in the industry—

Mr. JOYAL: What is that appropriate action?

Dr. ENGLISH: The kind of thing which is obviously most effective is that if you raise your prices and get higher profits—

Mr. JOYAL: Mr. Allmand has asked a number of questions in this committee. For instance he said that if there were restrictions on advertising and promotion, what would happen to that budget? He said it would be settled by other ways.

Dr. ENGLISH: What other ways?

Mr. JOYAL: I believe the evidence was that if there are any restrictions on advertising and promotion, we know that we have to promote our products anyway and so other fields will be found in which to spend the money. Once you have covered that field by more restriction, then you have to start in another field. It is like picking up liquid mercury in your fingers.

Dr. ENGLISH: I do not like to express too pessimistic a view, but I also agree that first it is better, it is essential, to inform the customer better, and, secondly, to reduce, if necessary, barriers to competition inside and outside the company by a more effective Combines Act. Just putting a limit on advertising is not sufficient to cover all our problems of distribution. I am not sure that it creates other serious problems.

Mr. JOYAL: It would have to be examined much more carefully than here?

Dr. ENGLISH: Oh, yes.

Mr. JOYAL: I now direct a question to Mrs. Auld. During the course of your early testimony you pointed out that supermarkets in your area provided only Red and Blue brands of beef, for example. What can be done about that? Have you given any thought to it?

Mrs. AULD: As a matter of fact, this is already something about which we are asking the corporate chains, and this is why when I come down here this time I am interested to know that there is a chain here in Ottawa that has a section of economy meat. The day before I arrived I approached one of the large food chains in our area and asked if they would ever consider making it a habit on perhaps the first three days of the month, to offer consumers non-packaged vegetables. For example, we find, and the trade is right, that the packaged vegetable maintains its quality very well in the supermarket shelf, and the polyethylene bag is very important. On the other hand, consumers say to us that they cannot exercise the economy they would like to while only being offered packaged merchandise. We are in fact saying to the chains, "Would you run a little experiment for us and try to merchandise for a lower income level." Because if you read any book on the supermarkets you are constantly learning that they are getting to a higher income level, that they are not where they were when they started, and we are wondering if they could not work something out, as has been done in other areas, some means of bringing in some of the economy lines. Certainly the meat packers would like to do this, because much of the commercial grade beef is shipped from Saskatchewan right down here and that is very costly.

Mr. JOYAL: You think this should be done by the processors?

Mrs. AULD: Yes.

Mr. JOYAL: Not by governmental action?

Mrs. AULD: No.

Mr. JOYAL: Has your council investigated, firstly, the weekly specials in meat in the retail chain stores, and which are always different from chain to chain? Have you any evidence that there is any collusion between the chains arriving at the selection of specials in any given week? We have had evidence from Dominion Stores, for instance, that the plain law of supply and demand for goods prevents such collusion.

Mrs. AULD: This question was asked at our Consumer Forum in Winnipeg and this was the answer that we received at that time. They said that if a chain in our area wished to have chicken there really might not be enough if they all went to the same product, but sometimes it is pork. For example, we had one notable weekend after the boycott where it was pork all over.

Professor OLLEY: I am from Saskatoon, and we did a survey between stores to see how prices were determined. Understandably, nobody would put it in writing, but numerous persons reported that their method was Safeway plus or minus. That is not illegal, of course, at least, I do not believe so, but it does represent a kind of formalized price leadership, and I think that this sort of practice would tend to be more extensive in smaller centres where the competition was less intense.

In the smaller centres where you have one big store dominating in the retail of food, it is much easier and indeed more desirable for most of the smaller ones to have that big store set the tenor of the prices and packaging and let the others follow. As for that store, it is easy to protect itself in regard to profit margins and in that way it prevents losses from other competition.

Mr. URIE: That is on prices, but what about the actual special?

Professor OLLEY: This refers to specials and one does see in the local paper that the specials change the second day on which they advertise.

Mr. URIE: Does this seem to be the practice throughout the country or is it only in one area?

Professor OLLEY: Being a voluntary organization we can only carry out the survey where we can get enough women to do it.

Dr. ENGLISH: This is the sort of situation where one chain store is in an area and is particularly the leader. It would not occur in the larger cities.

Mr. URIE: Has any evidence of a concrete nature been brought to you that there are payments, cash payments, being made for shelf space, aisle space, end aisle space, and so on, by negotiation at the behest of the retailer rather than the processor—bearing in mind that the processors, manufacturers and so on, all have indicated there is no such pressure?

Mrs. AULD: Are you referring to the sort of prices they give brokers, saying these advertising allowances are what we charge to them for end of aisle display?

Mr. URIE: That is right. I am talking about that type of thing; but whether or not it varies from chain to chain or from store to store, depending on the bargaining capabilities of the individual retailer?

Mrs. AULD: We have some material on it. We really were not sure what to do with it.

Mr. URIE: What was it?

Mrs. AULD: To be quite frank, it was a local situation. This question came up. The consumer was asked "Did you know that we had to buy an end of aisle space?" This was something the consumer had not realized, and we looked into it.

Mr. URIE: Who initiates this bargaining for the end of aisle space, the middle aisle space, shelf space, the advertising? Have you any evidence on that? Is it initiated by the retailer? Does he force the manufacturer or processor to get this, to give him this allowance for this type of advertising?

Dr. MACFARLANE: I would not wish to make a statement further than that eight or ten years ago I had an explicit statement from someone in the food industry that this was the practice, and he gave figures of $600 for some space, in respect of a canned product. However, I never had that substantiated, but the man is a reliable man.

Mr. URIE: That was eight or ten years ago.

Co-Chairman Mr. BASFORD: In 1960, the Combines Amendment Act was amended on promotional allowances, requiring that if you were allowing promotional allowances to one purchaser, you had to offer a similar allowance to everyone, and that there could be no special deal. Mr. Urie wants to know if you have any evidence of a special deal.

Mr. URIE: Since that date.

Co-Chairman Senator CROLL: I gather she has not.

Professor OLLEY: This question has been raised twice, do you buy shelf space for cash, and both times we have said we do not have conclusive evidence that we would stand up in public. However, I think we all recognize that there are more ways of doing it than by paying cash. A more common way is to offer an advertising allowance as long as your product is displayed in such and such a place or in such and such a way.

Mr. URIE: And this of course is the method, but what we are driving at is to find out if there is any difference between them.

Senator CARTER: On page 4 of your brief you refer to shortcomings in the consumer index, that not sufficient adjustment is given for quality changes. We

have had witnesses from the Dominion Bureau of Statistics, and other departments, I think, which compose this consumer index. They have told us they do make adjustments for changes in packaging, when one goes from a box to a jar or a glass container, and also for improvements in quality. Have you any suggestions as to something further that might be done?

Dr. ENGLISH: I am confident the D.B.S. is better able to work on this problem than any of us. They would recognize that these problems are continuing ones, and that they have not solved all of them, but they have been attempting to arrive at a solution. How do you allow for quality changes in an automobile? What is the quality change in an automobile? These are terribly difficult questions.

Senator CARTER: You do not have anything special in mind?

Dr. ENGLISH: No. We are only recognizing that any price index suffers from this prolbem. Our price index has probably been the product of as able a group of index makers as there are, and I have great confidence in them. However, I am sure they would admit themselves that this is a continuing problem in the case of any index.

In order to make out a price index, you must have a fixed quantity and weight attached to the prices. Because consumer tests change over the years, these quantities and weights as the years pass become less and less accurate indications of the importance the consumer attaches to the product. This is the basis of the problem of the price index number, too.

We are merely recognizing that such a problem exists and that at any time a very small change in prices reflected in the index may be a rather inaccurate reflection of the change, because of the small error that always exists in price indexes. It is only when you get substantial changes and continuing changes in prices, that you can be confident it is not some special factor of that kind.

Senator CARTER: I would like to ask Mrs. Auld as national director of the Consumer's Association and as Chairman of the Consumer problems committee, whether she has representatives in all the provinces?

Mrs. AULD: Yes, I have a committee member in each province.

Senator CARTER: And you collect information from every province?

Mrs. AULD: We do. The answer to that question is yes. I collect the problems I deal with from two sources. In the first place, the (C.A.C.) Consumer Problems Chairman in each province has a committee herself, which represents each local branch, and she deals with all problems within her province. When she sees a national problem which has to be dealt with—we have certain terms of reference—she forwards it to me. We get all these things, and they amount to hundreds.

Outside of that, I also get those which are sent directly to the national office, and 60 per cent of those sent to our national office in Ottawa—which are then sent to me in Winnipeg—at present are coming from non-members.

Senator CARTER: Have you been able to deduce any marked regional differences in the range of prices or price increases, merchandising practices and things like that? Can you separate one region from another and say that problem is more acute in one region than another?

Mrs. AULD: Yes, we can.

Professor OLLEY: Actually, the D.B.S. does it for us. It has a Spatial Price Index in it. It is published in its price index. It is usually published as Table 13 in their publication 62-002. They compared food prices, between cities, using Winnipeg as base. If you take 1965, Regina and Saskatoon are above the Winnipeg prices. Edmonton is 4 points below. The difference between the highest

and the lowest is 7 percentage points. Calgary and Edmonton are cities characterized by considerably more intensive competition.

Senator CARTER: That is the explanation?

Professor OLLEY: I am not offering it as an explanation, but as a suggestion.

Senator CARTER: Have you gone below the retail person? Have you any information as to distributing practices in any of the different points in Canada?

Mrs. AULD: It is very limited, I think. We find there are very special problems in Newfoundland because of their isolation. Also, in Victoria, British Columbia, people have done studies in relation to the mainland, and they find they have problems. There definitely are needs which exist in rural areas as opposed to urban areas. This comes out in the questioning. I do a lot of my most intensive work with rural correspondents who, in the matter of appliances and all this sort of thing, which adds to their cost of living, find they are having problems.

Senator CARTER: Have you come across this problem with a certain product? For example, where cornflakes is sold through a particular distributor, who has a franchise for a whole area?

Mrs. AULD: Oh yes.

Senator CARTER: And, though the store may buy directly from the factory, this fellow who has the franchise gets his commission, even though he had nothing to do with it, did not handle it or warehouse it. He gets his cut because he happens to have the franchise. Have you any evidence of that?

Mrs. AULD: We have not thought it out. If it is there, we have not found it.

Mr. ALLMAND: Dr. English, in the Criminal Code there is a section which forbids deceptive, misleading and untrue advertising. In trying to find reported cases, there are very few, the difficulty is that in criminal cases one has to prove "beyond reasonable doubt". Secondly, a person who has been wronged by deceptive advertising by expecting a soap to be whiter than white and finding that the soap is not whiter than white, usually forgets about it. He does not go and lay a complaint. This is probably true of many types of advertising where consumers are deceived.

I was wondering whether your association has ever received complaints about misleading or deceptive advertising, or whether you have laid complaints under that section of the Criminal Code yourselves, and, alternatively, if you have not done that, do you think there should be some sort of agency like the combines investigation group which would receive complaints and prosecute because of the fact that the little man who is wronged by advertising does not do it himself.

Dr. ENGLISH: It is, of course, possible under the combines law for any six citizens to register a complaint. There is still that opportunity, but, unfortunately, not many people are aware of it. There is still the opportunity for a very small group of people to register a complaint under this law. I cannot say whether there have been any specific complaints by members of the association. Certainly, I do not know of any by the national executive, but, of course, what often happens in the administration of that law is that individuals will speak to the department about a problem. Municipalities are very active in this respect. Municipal councils are. I think we can all remember that Mayor Whitton used to threaten this kind of thing on occasion, and she probably followed through with her threats on occasion.

Individual complaints do not have legal status, but they certainly do get those who administer the law thinking about it and making individual inquiries.

However, one of the biggest problems in the past has been that the staff of the combines group has not been adequate to search out every problem and pursue it.

Mr. ALLMAND: I am not thinking too much of the combines but of the section on misleading and deceiving advertising.

Dr. ENGLISH: But it is administered by the combines branch, is it not? I think the problem of having a federal trade commission in Canada has been reviewed from time to time. Attempts should still be made, I think, to work out a more effective and flexible system of administering the law than the criminal law allows for, because the requirements for the criminal law are, as you suggest, very difficult to meet. Many things which should be traced down and remedied cannot be remedied so long as the criminal law is the only technique for getting at them.

From your earlier question, I am sure you are aware that one of the problems is constitutional.

Co-Chairman Mr. BASFORD: Do you receive any contributions from the Canadian Labour Congress or the Canadian Manufacturers' Association?

Dr. ENGLISH: Not from them as organizations, but possibly membership fees the membership of those organizations. We have at least one bulk membership as well. A new enterprise we have been trying to encourage is bulk memberships on the part of credit or labour unions, where we make available the magazine to large groups at a somewhat reduced price. This is something I think we will hopefully develop in the future in order to extend our membership.

Co-Chairman Mr. BASFORD: You speak in your brief several times about the inadequacies of competition. Are you concerned about the size of some of our corporate enterprises in the food business?

Dr. ENGLISH: I would say that probably from the point of view of economies of scale, some of them are larger than they need to be. In other words, they do not have to be so big to be efficient. But the problem nowadays is that some of the most costly aspects of the food distribution and other industries, are the advertising and research costs. These are the costs which have to be spread over a large volume output for many of these enterprises. If there are ways of reducing the costliness of selling, perhaps smaller enterprises would be more successful in competing with the larger ones. This is one of the reasons why, if we prohibited some selling practices, smaller companies could more successfully compete with the larger ones.

I do not think one should go at it in the old fashioned slogan of "trust-busting," because in the Canadian economy a certain scale is necessary to achieve efficiency, and it is doubtful whether you could increase the number of major producers in an industry by more than a very few and still retain the advantages of scale economies.

Co-Chairman Mr. BASFORD: I am concerned about the size of the western Loblaw empire, which is probably going to get bigger yet. Are you concerned about this?

Dr. ENGLISH: I think in the food industry this question deserves most careful examination. It is very doubtful if such great size is necessary to achieve efficiency.

Co-Chairman Senator CROLL: Ladies and gentlemen, we have a meeting this afternoon. We have the Canadian Manufacturers Association before us at 3 o'clock. You have their brief before you.

Dr. English, you and your group have been very helpful this morning. We have had a good morning, as a matter of fact, and we are very appreciative.

There is something which if you could do it, would be most helpful. If you could reach out to these various other groups and bring them under your umbrella, so to speak, it would be a great help, because our doorstep is rather full of people who want to be heard, and that is going to be very difficult. In that respect perhaps I express the view of the committee as a whole, that if you were able to reach out to more of our consumer public, and give to them the benefit of your organization and your information, it would be of great assistance, generally.

On behalf of the committee I thank you and your association very much.

The committee adjourned.

—Upon resuming at 3 p.m.

Co-Chairman Senator CROLL: Members of the committee, we have before us this afternoon the Canadian Manufacturers' Association. On my left is Dr. M. W. Farrell, Chairman, Industrial Economists' Forum. He is with the Steel Company of Canada. I understand Mr. Engholm, Vice-President will introduce the other members of the delegation.

Mr. R. A. Engholm, Vice-President, Canadian Manufacturers' Association: Senator Croll, Mr. Basford, honourable senators, members of the committee, ladies and gentlemen, as Senator Croll has already said I am R. A. Engholm, Vice-President, Canadian Manufacturers' Association.

The association is pleased to respond to the committee's invitation to appear before it. We naturally are most anxious to do everything possible to help the committee in its important work, and the submission which you have before you and which we will shortly read is, it is hoped, a contribution in this direction.

It is a source of much regret to us that time did not permit the presentation of this document in bilingual form. We assure you that the French version will be in the hands of the committee just as soon as possible.

I should now like to introduce my associates: R. E. Barron, Manager, Transportation Department; Peter Bartha, Economic Research Director; S. E. Ewens, Chairman, Taxation Committee; M. W. Farrell, Chairman, Industrial Economists' Forum; W. D. H. Frechette, General Secretary; H. J. Hemens, Chairman, Committee on Corporation Law; D. H. Jupp, Ottawa Representative; Richard Lang, Manager, Tariff Department; Charles Perrault, Member, Executive Council; C. A. Pollock, Chairman, Tariff Committee; H. B. Style, Immediate Past President; J. C. Whitelaw, Executive Vice-President and General Manager.

Dr. Farrell will be our chief spokesman. If it meets with your pleasure I shall now call on him to present the C.M.A. story.

Dr. M. W. Farrell, Chairman, Industrial Economists' Forum, Canadian Manufacturers' Association: Mr. Chairman, members of the committee, I shall read from the submission which has been presented by the association.

1. Rapidly rising prices affect manufacturers just as they do every other group in the economy. Producers are well aware that cost trends in Canada which outpace those of other countries lead to loss of markets and a decline in profitability. They do not relish the bust which follows an inflationary boom.

2. Thus, The Canadian Manufacturers' Association is pleased to have been asked to appear before this Committee which is inquiring into "the trends in the cost of living in Canada and factors which may have contributed to changes in the cost of living in Canada in recent months".

3. The Canadian Manufacturers' Association is a nation-wide non-profit, non-political organization structured to provide specialist services to all its members and seek solution of common industrial problems. A continuing contribution to the growing strength of the manufacturing industry is a prime objective of the Association. The CMA's membership consists of some 6,300 manufacturers located in over 600 cities, towns and villages in all ten provinces of Canada.

4. The association includes large, medium-sized and small companies but over 75 per cent of the members employ fewer than 100 people and of this percentage a great majority employ fewer than 50 people. CMA member companies and their employees are responsible for more than three-quarters of the manufacturing production in Canada.

5. Chief duties of the association to its members involve the provision of information and assistance in matters pertaining to domestic and foreign trade, taxes, tariffs, industrial relations, legislation, transportation and marketing research as well as representations to all three levels of government concerning laws, regulations and policies affecting the industry.

6. We wish to assist the work of this Committee by submitting our views of the pattern of price movements and the relationship between prices, profits, wages, productivity and other factors affecting manufcturing operations. However, it has been a long-standing policy that price structures, price policies and the establishment of manufacturers' prices do not come within the scope of the Association's work. Members deal with these matters themselves.

7. For this reason, although we are vitally interested in seeing that Canadian prices do not exceed levels which represent good value to our customers, the association is in no position to offer comments on prices set by individual manufacturing firms.

8. The material prepared for the use of this committee documents that manufacturers' prices have a record of much more moderate increases than the elements of the consumer price index and that profits as a percentage of sales and net worth have been relatively lower in Canada than in other countries.

9. The submission points out that in the later stages of the current business expansion wage costs per unit of output have increased while profits per unit of output have declined. Attention is drawn to the fact that productivity improvements, particularly over the short-term, result largely from the contribution of non-labour factors of production, especially capital and natural ressources and the effectiveness with which they are combined and organized for production.

10. The brief stresses the role of the price system as the best means of allocating resources in a competitive economy. Thus, the Association has been very dubious about the desirability of voluntary wage-price guidelines and supports the conclusion of the Economic Council of Canada that a formal incomes policy would not be an effective way of meeting the problem of high levels of employment together with reasonable price stability in the Canadian setting.

11. The submission expresses the association's concern with what appear to be usually large wage settlements and their tendency to become pattern setting precedents. It recognizes the complex interrelationship between costs and prices and the immense difficulty of identifying any single predominant factor contributing to rising prices. The brief also describes other cost factors, such as the expenses of distribution, tariffs, commodity and corporation income taxes and the impact of credit conditions which have had a substantial influence on manufacturers' prices.

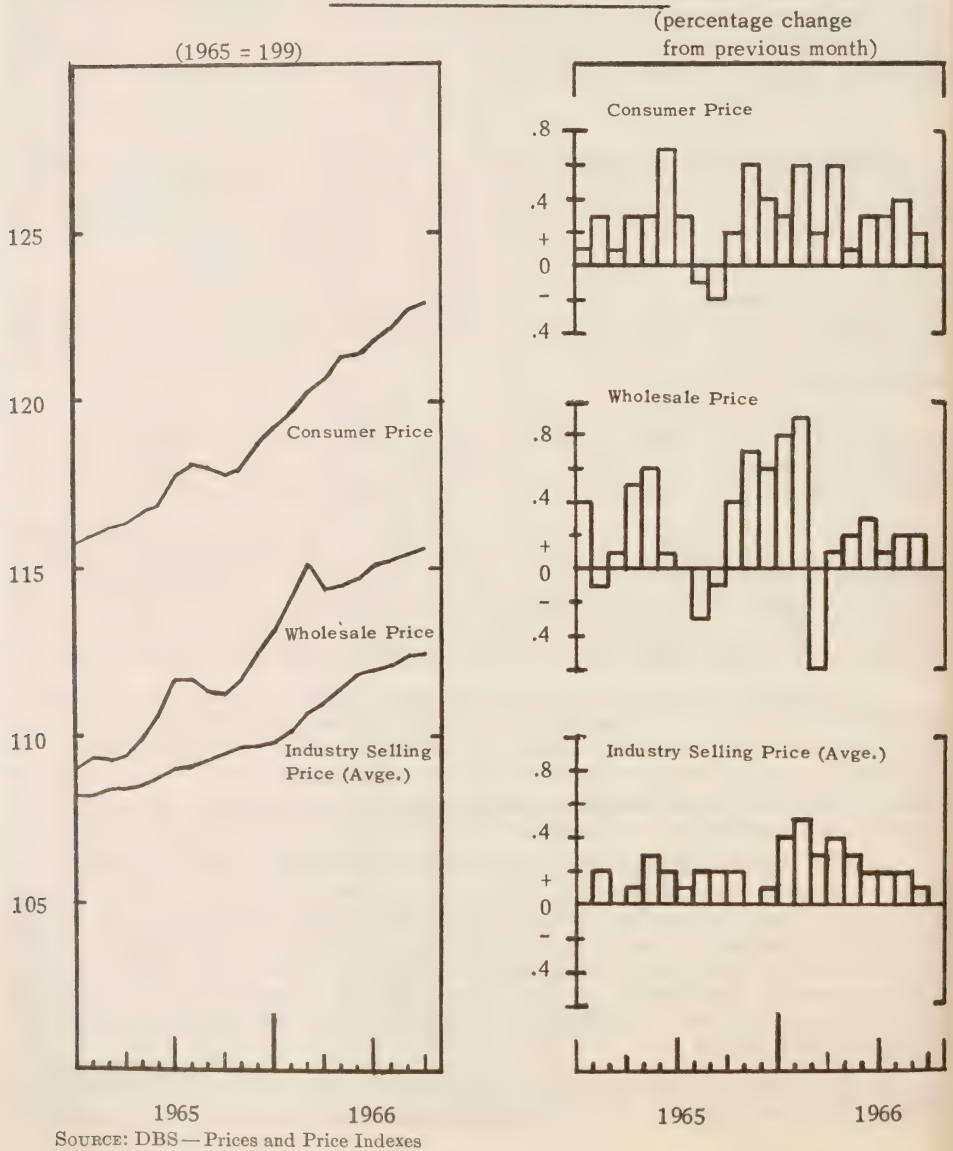
12. The views in the ensuing analysis are based on the interpretation of official statistics and other publicly available information.

PRICES

13. The price paid by the customer for any particular commodity reflects supply and demand conditions at retail, wholesale and producer levels. Over a longer period of time, prices charged at different levels of the production and distribution process tend to move in the same direction. In the short-run, however, the balance of market forces acting upon the retail sector may be considerably different from those felt by industry. As the Economic Council of Canada observed in its Third Annual Review, "selling prices in manufacturing tend, on the whole, to remain relatively stable over the course of shorter-term business fluctuations".

I will not attempt to explain the price movements shown in the following table. If you have other questions, we will look at that later.

PRICE MOVEMENTS, 1965–66



SOURCE: DBS—Prices and Price Indexes

14. The top portions of the charts show movements in the Consumer Price Index. As this committee is well aware, such components of the consumer "basket" as non-durable goods rose only moderately while durable consumer good followed a downward trend throughout last year and early 1966.

15. The centre parts depict the General Wholesale Price Index which incorporates a broad range of primary and processed commodities. The index includes prices paid to producers as well as payments made to "middlemen". A breakdown of the index reveals that much of the fluctuation pattern has been due to price changes in raw and partly manufactured goods. The index of fully and chiefly manufactured products has moved fairly steadily; it increased by 5.9 per cent in the twenty-one month period from January 1965 to September 1966.

16. The lower portions of the charts indicate the pattern of the average of Industry Selling Price Indexes. The average refers to 102 manufacturing industries and includes only prices of domestically produced goods. Increases in industry selling prices have been relatively more moderate than changes in the other two series. Also, there appears to be no trace of violent month-to-month fluctuations which characterize wholesale and, to a lesser extent, consumer prices. This is a measure of the cushioning role performed by industry. Through their profits and losses, manufacturing firms tend to smooth out sudden shifts in the price of raw materials and other supplies.

17. The extent to which manufacturer's prices changed during the past decade is analyzed in the table below. The median of 102 industry price indexes rose by 13.5 per cent between 1956 and September 1966. By comparison, the Consumer Price Index went up by 23 per cent during the same period. Of the 102 industries surveyed by the Dominion Bureau of Statistics, only 14 show price increases in excess of 25 per cent while in 39 industries the change over the decade was negative or less than 10 per cent.

The following table shows the pattern of increases and decreases in industry selling prices over the 10-year period 1956-1966

Industry Selling Price Changes, 1956-Sept. 1966

	Number of Industries	Percentages of Industries
Increase		
50% or more	1	
40-50%	3	
30-40%	6	
25-30%	4	
20-25%	12	
15-20%	17	
10-15%	20	
5-10%	12	
0-5%	9	
Total	84	82.3
Decrease		
0-5%	7	
5-10%	4	
10-15%	3	
15-20%	2	
20% or more	2	
Total	18	17.7
Grand Total	102	100.0

Source: DBS—Prices and Price Indexes.

Industries in the top categories of the table are those which have been severely affected by increases in the prices of their raw materials. It should be noted, on the other hand, that a number of consumer-oriented industries still sell below their prices of ten years ago.

PROFITS

18. In a period of rising prices, manufacturing profits are bound to come under close scrutiny. Inflationary pressures tend to develop during the later stages of the economic upturn when business conditions are buoyant with practically full employment, expanding capacity and rising standards of living. Since aggregate profits are up as well, it is all too convenient to tie rising prices and rising profits together and thus identify the "villain".

19. This purported cause-and-effect relationship is based on a number of misconceptions attached to the nature, function and size of profits. Unfortunately, profit is often regarded as an end product by itself. But in our modern competitive economy, the nature of profits is comparable to that of wages. Both are payments to factors which are necessary for production. Both are earned in the course of the productive process only to be spent again on goods and services. Wages are payments for the services of labour; profits are payments for the use of capital, for risk-taking and for the successful operation of the enterprise.

20. Surveys conducted by the Canadian Institute of Public Opinion and the National Industrial Conference Board in both Canada and the United States have shown that employees desire security of employment above all else in their jobs. This is placed above opportunities for advancement, high wages, fringe benefits, job status and recognition. For its part, the manufacturing industry can only guarantee security of employment if its operation is a success. The yardstick of continued success is the making of a profit.

21. If a company fails to make a profit, it is not successful. If it is not successful, the jobs of its employees are jeopardized and sooner or later will be lost. For this reason, each and every employee has a vested interest in seeing that the firm makes an adequate profit.

22. The success of industry is also crucial to the well-being of whole communities. This is particularly apparent in smaller towns where the difference between prosperity and decline could be directly related to how well local firms are doing.

23. From profits comes security. They ensure the continued successful functioning of the plant, the resultant increase in the number of jobs available and the promotion of the skilled and capable employee. From profits comes progress. They make possible the renewal and modernization of productive tools and the growth of plant services. From profits comes a large measure of government revenue and, in this day and age of expanding social services, good profits are as important to governments as they are to shareholders and employees.

24. The Minister of Trade and Commerce, the Honourable Robert Winters, pinpointed the corporate dilemma in a recent address in Sault Ste. Marie when he said that "where cost increases cannot be offset by greater productivity, there is bound to be a reduction in profit unless price increases can be realized. This is usually a function of the market place and quite often consumers simply will not accept the increases in price. In any event, this is not the time for unnecessary price increases. But, having in mind that profits are the incentives that give muscle to our private enterprise system and also that they are a source of much-needed capital as well as government revenues, neither is it the time for unwarranted depression of corporate profits."

25. In a nutshell, adequate profits are an essential to the maintenance of the competitive enterprise market economy which, in the long context of history, is a comparatively modern method of doing business. It is a method, however, that has proven itself as the well-spring of the greatest economic progress. It is a method that has been good for Canada as a nation and for Canadians as a people.

26. Another misconception in the matter of profits is that they are too big. Without delving into the fact that ours is a profit-and-loss system and that in any given year a large number of Canadian concerns wind up with a loss, profits are always subject to the discipline of the market place.

27. The very basis of the enterprise economy is competition and, whatever the product, competitors quickly appear to challenge for a portion of the market. Alternatives and improvements are invented and offered to the consuming public. Soon the market becomes so broadened that the profits derived are rarely more than the adequate return for the idea itself and the capital and talent devoted to its production. By the same token, no company can afford to allow its profits to fall below the level necessary to satisfy its shareholders and to provide for modernization and future growth.

28. Since profits make possible and provide the incentive for the expansion of the country's productive capacity, it is meaningless to look at the size of profits in isolation. A given rate of profits, even if it seems large in terms of dollars, may well be deficient in relation to the potential need for investments in plant, machinery and equipment. Looking at profits from a different angle, the rate may also be inadequate for the private investor to compensate him for uncertainty and risk.

29. It is impossible, therefore, to establish a set figure as representing "fair" profits. Perhaps the best that can be done is to examine different measures of profitability over a number of years. One of these indicators is profits as a percentage of net sales, another is the ratio of profits to net worth.

30. As the table indicates, the aggregate of after-tax profits earned by manufacturing corporations increased by 60.5 per cent between 1955 and 1965. During the same period, however, the ratio of profits to sales declined from 4.3 per cent to 3.6 per cent.

Manufacturing Profits and Sales
(millions of dollars)

	After-Tax Profits	Net Sales	Profits as a % of Sales
1955	844	19,694	4.3
1956	919	22,818	4.0
1957	798	22,540	3.5
1958	776	22,373	3.5
1959	856	24,528	3.5
1960	768	25,177	3.1
1961	800	26,012	3.1
1962	967	29,066	3.3
1963	1,117	31,103	3.6
1964	1,259	34,161	3.7
1965	1,355	37,855	3.6

Source: DBS—Corporation Profits.

31. The fact that only 3.6 cents of the sales dollar represent profits, dividends and retained earnings included, illustrates the narrowness of the margin in Canadian manufacturing as a whole.

32. An often used measurement of a company's performance is the return on net worth, that is, profits as a percentage of common and preferred stocks plus retained earnings. Unfortunately, this information for the manufacturing sector is not available in a complete and up-to-date form from official sources.

33. A current statistical series of returns on net worth is one based on The Canadian Manufacturers' Association's own annual survey of some 1,000 member firms.

34. Although the coverage of the CMA survey is far from being complete, the results suggest a clear pattern of increase and decline in returns over the course of the business cycle. The ratio of profits to net worth declined with the level of overall economic activity in the late 1950's and turned up again as conditions started to improve in 1961. The survey also indicates a rough magnitude of the return on net worth in the area of 7 to 10 per cent a year.

CMA Survey of Manufacturers
(millions of dollars)

	After-Tax Profits				After-Tax Profits as a % of
	Dividends	Retained	Total	Net Worth	Net Worth
1955	197.1	266.4	463.5	n.a.	n.a.
1956	187.3	300.4	487.7	n.a.	n.a.
1957	203.7	263.1	466.8	5,048.1	9.3
1958	233.6	177.7	411.3	5,596.7	7.3
1959	234.4	250.9	485.3	5,585.2	8.7
1960	263.7	195.1	458.8	6,279.3	7.3
1961	284.4	226.1	510.5	6,722.6	7.6
1962	287.2	271.1	558.3	6,341.6	8.8
1963	305.8	332.0	647.8	6,765.8	9.4
1964	342.1	394.1	736.2	7,700.3	9.6
1965	345.0	312.2	657.2	6,555.8	10.0

Source: CMA—Manufacturers' Sales Dollar Breakdown.

35. After-tax returns on both sales and net worth in Canadian manufacturing appear to be lower than in the United States. As indicated on the table below, the difference was particularly wide in 1965. This, in part, reflects the impact of U.S. tax reductions which were not matched in Canada.

After-Tax Profits in Manufacturing
as a percentage of:

	Sales		Net Worth	
	Canada	U.S.A.	Canada	U.S.A.
1962	3.3	5.5	8.8	10.9
1963	3.6	5.7	9.4	11.6
1964	3.7	6.1	9.6	12.6
1965	3.6	6.6	10.0	13.8

Source: DBS—Corporation Profits, CMA—Manufacturers' Sales Dollar Breakdown and Monthly Economic Letter (First National City Bank of New York, April 1964 and 1966).

36. The statistical evidence is further reinforced by a 1961 survey of foreign subsidiaries of U.S. manufacturing corporations. According to the National Industrial Conference Board, higher than U.S. profit margins were earned by the subsidiaries in the United Kingdom, the Common Market, Latin America, Australia and Asia. The only geographical area where the majority of responding firms reported lower than U.S. profit margins was Canada.

37. Profits, as suggested earlier, cannot be excessive over time in a truly competitive system. Thus, a public policy which aims to encourage economic growth can assure that profits are adequate, and not more than that, by fostering competition through the economy. In some instances, regulations and laws may be beneficial to prevent undue concentrations of market power. In other situations, however, government intervention in the normal functioning of the market place only introduces rigidities and distortions which ultimately tend to reduce competition.

38. To again quote from Mr. Winters, "any government... that adopts policies which interfere too substantially, either directly or indirectly, with the individual firm's decision-making capacity, will find that prosperity is hard to sustain".

WAGES

39. Just as important as adequate profits (which create capital and stimulate enterprise) are adequate wage and salary rates (which tend to mobilize the labour force and help to match workers and jobs). However, in the modern economy there are basic institutional differences between the way the capital market and the labour market operate. While competition is an effective internal regulator of profits, labour is organized precisely to reduce competition within the work force. It is, therefore, left by and large to the bargaining process to establish adequate wage rates, the test being mutual acceptability for both labour and management.

40. In recent months, the bargaining process and resulting wage settlements have been subject to much public criticism. On the one hand, management has been charged with being too ready to give in to exorbitant wage demands because allegedly it could pass on higher costs to the consumer. On the other hand, management has been accused of being tight-fisted, not willing to grant wage increases of the magnitude demanded by unions.

41. There is obviously some truth in both arguments. At a time when the economy is operating at near-capacity levels, labour is in a stronger bargaining position and management is under pressure to go a longer way in meeting labour's demands. Indeed, if labour is scarce, industry will want to pay more to attract and keep the required work force. At the same time, however, capital is scarce as well and industry must offer attractive returns to investors if it is to have funds for future growth. A spill-over pressure on prices and profit margins, therefore, is bound to develop.

42. Again, it is competition which sets limits to a company's ability to pass on production costs and improve profits via higher prices. The very same constraint is transmitted to the bargaining process and this keeps the size of wage settlements within bounds. However, under conditions of full employment with regional and sectoral shortages of labour, this internal system of checks and balances tends to become weaker.

43. As the Economic Council of Canada observed, "union leaders will be aware that their negotiating performance—their ability to deliver sizeable wage and other benefits—is being more closely and critically scrutinized than usual by their members. Businessmen will tend to feel more justified in endeavouring to recover their past and prospective cost increases via price rises and will be less concerned over longer-term competitive consequences. This tendency will be all the stronger if profit margins per unit of output have begun to level off or decline as they generally do in the later stages of expansion".

44. Where wages are determined by formal collective bargaining, the parties may also be forced into unrealistic positions because of incomplete or inaccurate

knowledge of patterns for settlement and wage trends. In our role of gathering and disseminating information to our 6,300 members, we are struck by the frequency with which not only the public, but unions and management as well, have been affected by the settlement of some contracts this past summer which have gained nation-wide prominence in the press by virtue of government involvement in the process of collective bargaining.

45. Statistics on base-rate wage increases, that is, the average annual rate of increase over the life of the contract from the date of signing, indicate a sharp upward trend since early 1965. In the second quarter of 1966, wage increases recorded a peak, running at a 9 per cent rate. By comparison, during the previous economic expansion in Canada the peak was about 7 per cent in early 1957.

46. While wage increases of such magnitude result in a substantial rise in unit costs for the companies affected, worse still is the pattern-setting impact of the unusually large settlements reached recently. The adverse impact is further compounded by misleading publicity which ignored the terms of new contracts and conveyed to many Canadians that wage increases of 30 and 32 per cent have become the order of the day. Current negotiations indicate that this threatens to become a justification in the mind of a large segment of the public for general wage increases of similar proportions. We believe that here, together with the feedback effect of the rise in consumer prices, is one of the contributing factors to a heightened degree of labour unrest.

47. In making awards under the compulsory arbitration law for hospitals in Ontario, we note that arbitrators have recognized the danger and endeavoured to publicize the rationale for their decisions in announcing a settlement. We recommend similar action by the government wherever it finds itself an intervener in the settlement of disputes.

48. Beyond this, we urge that care be given to the preparation of news releases concerning the terms of settlement. This is of particular importance in the case of major settlements which are likely to gain prominence in the press and thus exert influence on general wage expectations.

49. Of course, to quote again the Economic Council, "the link between prices and costs is an interconnection of a complex, two-way character. The price of widgets may be high partly because the wages of widget-makers are high, but the wages of widget-makers may be high partly because the demand for widgets is buoyant". There appears to be little likelihood of finding out precisely where the circle begins in an inflationary situation of the kind we now have in Canada. The forces which make for short-run price increases are far too widespread to permit the pinning of blame on any one group in the economy, whether labour, management or someone else.

POLICY IMPLICATIONS

50. It follows from the discussion of prices, profits and wages that the appropriate public policy today should not be one which seeks to offset the inflationary pressures by trying to impose an artificial ceiling on wages and prices.

51. There has been considerable public debate lately on the advisability of introducing, in one form or another, an "incomes policy" in Canada. The Association has followed the arguments for and against such a step with great interest and has given much thought to the subject of "voluntary guidelines". (Direct governmental controls, short of a real crisis, are wholly unacceptable constitutionally and otherwise in Canada.)

52. The Association's thinking on this immensely complex subject is reflected in an address delivered by President Henri Joly in Saskatoon on November 7th. Following are the relevant sections from Mr. Joly's text:

53. "We can all agree that moderation is of itself an essential element of good management, whether of government, of industry, of unions or of the household budget. The object of guidelines would be to provide a yardstick by which to judge what is moderate and what isn't. There are certainly some attractions to the idea of such guidelines if they would serve to reinforce the judgments of moderation. But there are major problems to be solved, two of which come readily to mind.

54. "The first is to prescribe a policy which in its precise terms and in the measurements it employs will ensure equity for all of those affected. By this I mean that one category of income earners must not be placed at a disadvantage in relation to others. This applies to workers in different industries, workers in different geographical areas, people whose income is derived from return on their savings and those who risk their capital in competitive enterprise.

55. "The second problem area is to define a policy which will be workable in a practical sense. In other words, it must be of such quality and depth of understanding as to commend itself to all concerned and receive their willing co-operation. It is also important that such a policy should not work in such a way as to sap individual initiative and penalize enterprise."

56. Meanwhile, of course, the Economic Council published its Third Annual Review, including a detailed study of incomes policies abroad and their relevance for Canada. The study, as indeed all the analysis and research work emanating from the council, carries great weight among manufacturers. This committee is well aware of the careful and logical examination of issues which led the Economic Council to conclude: "A formal incomes policy would not be an effective way of meeting the problem (of high employment and reasonable price stability) in Canada".

PRODUCTIVITY

57. The Economic Council's studies have singled out the area of productivity as the crucial determinant of Canada's growth. Manufacturers, based on their own practical experience, fully agree with this assessment and are vitally interested in better productivity performance both within individual plants and in the broader national context. They realize that only through satisfactory productivity gains can they, their employees and the country as a whole prosper. This is particularly evident for those manufacturers who are actively engaged in export trade, a field where international competition weeds out the inefficient in short order.

58. There are many ways to increase productivity, a better educated and more skilled labour force being one of them. It would be a mistake, however, to regard the quality of labour as the sole, or even the largest single factor contributing to productivity gains. For reasons of relative statistical simplicity, the concept of productivity is usually defined in terms of "per person employeed" or "per man-hour worked". Thus, the impression may be formed that everything else in the production process remains constant and labour is the only variable.

59. Nothing, of course, could be farther from the truth. In fact, the term "labour productivity" is largely a misnomer in the sense that the output to labour-input ratio measures precisely that portion of the increase in production which is not accounted for by additional labour.

60. Mr. Walter Duffett, Dominion Statistician, noted recently, "this residual, or 'measure of our ignorance' as it has sometimes been called, reflects not only

changes in the skill and effort of the labour inputs, as those who misinterpret it conclude, but also the contribution of the other productive factors employed —capital and natural resources, as well as the effectiveness with which they are all combined and organized for production".

61. Since different factors contribute to productivity gains and at the present stage of statistical analysis it is impossible to identify what has been contributed by each, there is little economic justification for the argument that the rewards going to all factors should increase at the same rate. If, for example, productivity is increasing as a result of better machinery, why should wage rates automatically go up just as fast? Instead, a case may be made for raising the return to capital or for reducing prices or even for doing both.

62. In the absence of detailed statistics, of course, the appropriate allocation of productivity gains is more of an academic than practical issue. However, it is of considerable importance in the economy whether the rate of increase in wages and salaries exceeds by far the rate of productivity improvements.

63. This, of course, means higher unit costs, a phenomenon which typically begins during the later stages of the economic upturn and continues well into the recessionary phase of the short-term business cycle.

64. To put the interrelated concepts of productivity, labour income, unit labour cost and unit profits in Canadian manufacturing into an historical perspective, the chart on the following page may be of assistance. All data are expressed in the form of index numbers with 1956, the high point of the previous business cycle, representing 100 on the scale.

65. The solid line in the upper portion of the chart traces the growth of manufacturing wages and salaries per man-hour between 1955, and 1965. Fringe benefits are not included because statistics are not available by industry categories. Obviously, however, this is the fastest rising component of total labour income, hence its inclusion would make the curve on the chart rise even faster.

66. The broken line just below shows changes in output per man-hour, that is, productivity. Thus, the gap between the two lines is a rough indication of the extent to which the growth in wages and salaries has exceeded improvements in productivity throughout the decade.

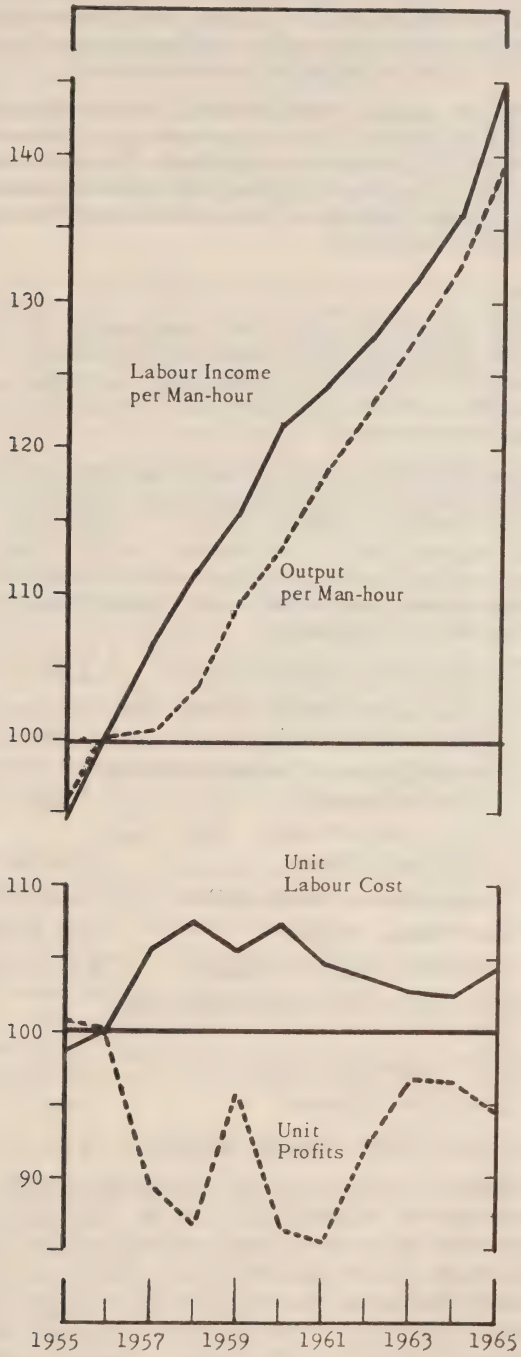
67. By 1965, wages and salaries per man-hour were 44.9 per cent above their 1956 level. Output per man-hour, however, was only 39.2 per cent higher. The gap between the two lines was consistently wide prior to 1961 when our present expansionary period began. During the following years it narrowed to a point where, in 1964, labour income and productivity were only about 3 percentage points apart. Of course, the 1961 to 1964 period was characterized by a remarkable degree of price stability in the economy.

68. The pattern changed in 1965 when wages and salaries per man-hour rose by 6.7 per cent compared with a 4.9 per cent gain in productivity. An even greater difference in growth rates is likely to show up in 1966 reflecting the impact of wage settlement.

69. The lower portion of the chart compares labour costs and profits per unit of output. The two lines are rough mirror images of each other, although, of course, the extent to which one declines is not matched accurately by an increase in the other.

70. Unit labour costs in manufacturing continued to rise during the period of business stagnation in the late 1950's. They turned down when the expansion got under way in early 1961 and the slack in the economy, the underutilized capacity, started to disappear. Unit profits moved roughly in line with the business cycle in both directions.

PRODUCTIVITY, LABOUR COSTS AND PROFITS IN MANUFACTURING
(1956 = 100)



Source: Based on data from DBS.
(Appendix I.)

71. By 1965, the usual symptoms of prolonged high levels of economic activity had a marked impact on the cost and profit situation. Unit labour costs rose by 1.7 per cent compared with a 1.9 per cent decline in unit profits. This reflected the emerging squeeze on profits: higher costs on the one hand, resistance to corresponding price increases on the other hand.

72. In the past, the system corrected itself by switching gears and moving from expansion into a decline. Today, however, it is the recognized goal of economic policy to sustain the upward movement. The goal, we submit, is in the realm of possible only if the rate of productivity growth improves. This, in turn, largely depends on the profitability of the individual enterprise and the proper functioning of the price mechanism.

OTHER COST FACTORS

73. Apart from the direct wage-profit components of the cost structure, there are other major influences which contribute to changes in the manufacturers' price. The expense of distribution, including transportation costs, is one of them and so are tariffs, commodity and corporate income taxes. Another factor is the cost and availability of credit.

74. In accordance with the general trend, manufacturers' costs for transportation have risen substantially during the past year. Generally, increases in rates have not been on a horizontal pattern nor on a nation-wide scale, but rather on a selective and regional basis. The sharpest freight rate increase has been imposed in the area of the smaller shipment where terminal labour costs impinge to the greatest extent, particularly on trucking rates. Illustrative of the many rate increases are the following:

April	1965	Truck Rates, Ontario-Quebec	10%
September	1965	Truck Rates (under 20,000 lbs), Eastern-Western Canada	17¢ per 100 lbs. or 10% plus 17¢
November	1965	Truck Class and Commodity Rates, Ontario-Quebec	10%
December	1965	Truck Intra-Ontario Class and Commodity Rates	5% to 20%
December	1965	Truck Rates, Canada-U.S.A.	Approx. 6%
January	1966	Rail Rates, various	3% to 10%
February	1966	Rail Rates, Eastern Canada	3% to 10%
May	1966	Rail Rates, Eastern-Western Canada	3%
June	1966	Rail Piggyback Rates	Approx. 10%
October	1966	Rail Rates, General	10%
November	1966	Truck Rates, Ontario-Quebec	8%

75. While the impact of higher freight rates has already been substantial, there are indications that the manufacturer will be confronted with still heavier cost burdens over a wide spectrum of future transportation services. The government freeze on freight prices since the year 1959 is to terminate with the passage of Bill C-231. Thereafter, the railways can be expected to adjust their rates along commercial principles. The size of recent wage settlements in railways will compel them to seek price increases in every possible quarter. As a corollary, it is anticipated that the highway carriers will raise their rail competitive rates to roughly similar levels.

76. The impact of the customs tariff on the pricing structure is of much less consequence today than it has been in the past. A major reason for this is the fact that under the General Agreement on Tariffs and Trade (GATT), upwards of 100,000 actual tariff reductions have been negotiated on a mutually reciprocal basis by more than 80 nations which now belong to GATT.

77. The effect of these tariff reductions on Canada's foreign trade has been considerable. On the one hand, they have been instrumental in opening more of the world markets to Canadian manufacturers and producers. On the other hand, they have also resulted in substantial increases in imports of manufactured goods into Canada, many of which are directly competitive with Canadian manufactured goods.

78. Almost every Canadian manufacturer has had to face up to these international challenges, not only in terms of being price-competitive but also in terms of quality, design and service. The present Kennedy Round GATT negotiations now under way in Geneva will undoubtedly result in even lower Canadian tariffs on imported manufactured goods.

79. Another reason for the lesser impact of tariffs on prices is the fact that most industrial countries, including Canada, no longer look to customs import duties as a major revenue source. In 1933, customs import duties represented 22.5 per cent of Canada's total federal revenues. In 1965, they accounted for only 7.8 per cent of total revenue.

80. Notwithstanding the above, there are still some duties imposed on imported goods which, in the opinion of the association should be removed. An import duty of 7.5 per cent (the Most-Favoured-Nation rate) presently applies on imported machinery of a class or kind not made in Canada. This unnecessary cost-handicap to Canadian manufacturers was imposed many years ago for the sole purpose of providing a preference in the Canadian market for machinery produced in Britain. The elimination of import duty on machinery which cannot be produced in Canada economically, within a reasonable period of time, would assist Canadian industry in keeping its costs down and prices more in line with foreign producers.

81. No review of the price of goods would be complete without reference to the impact of the various commodity taxes which are imposed in Canada to-day. These commodity taxes may be either general or specific and both the federal and the provincial governments participate in both categories.

82. Including levies imposed at all stages by the three levels of government, indirect taxes now account for about 15 per cent of Canada's Gross National Product. As the Economic Council of Canada notes, "From 1949 to 1965, indirect taxes per unit of output rose more sharply than any other major cost component of GNP".

83. Because the commodity taxes, levied under the Excise Tax Act, are payable by the manufacturer on his "sale price" at the time of sale, it seems pertinent to look at them first. The federal sales tax rate is 8 per cent to which is added a 3 per cent Old Age Security Tax, making a combined rate of 11 per cent at the present time. The rate of special excise tax varies according to the category of goods selected to bear this levy, and may be as high as 15 per cent. A manufacturer of radios or television sets, for example, pays a 26 per cent rate—11 per cent plus 15 per cent—on the "sale price" of his products.

84. Like other indirect taxes, these federal commodity taxes escape the consumer's attention because he cannot readily identify them in the price of the

goods he buys. Nevertheless, the revenue derived by the federal government from the manufacturer's sales and excise taxes is considerable as shown by the following table:

Federal Government Tax Revenues
(millions of dollars)

Fiscal Year ending	Sales Tax	Excise Taxes	Total
1960	1,002.7	286.6	1,289.3
1961	990.8	290.7	1,281.5
1962	1,044.6	262.5	1,307.1
1963	1,108.2	260.4	1,368.6
1964	1,277.9	273.4	1,551.3
1965	1,587.8	269.1	1,856.9
1966	1,917.2	296.2	2,213.4

Source: Dept. of Finance—Monthly Statement of Government Financial Operations.

85. The sudden jump in sales tax revenue for the period covering 1963-64, an increase of $169.7 million, and the period 1964-65, an increase of $309.9 million, is significant. In June of 1963, a 4 per cent rate of tax was applied to machinery and apparatus used by manufacturers to produce goods for sale, and on building materials. In April 1964, this rate was increased to 8 per cent and on January 1, 1965, the rate became 11 per cent . While it is not possible to calculate how much of the tax revenue increase arose from the new application of sales tax to production equipment, a figure in the area of $140 million in a full year would appear to be of the correct magnitude.

86. Not only does a sales tax on production machinery and apparatus increase the cost of producing goods in Canada, but it results in double taxation. The goods produced are taxed on their sale price which already includes a cost element reflecting taxes levied on the production equipment itself.

87. The tax-upon-tax feature becomes still more pronounced when it is noted that many provinces also impose a retail sales tax of from 3 per cent to 6 per cent on the manufacturer's production machinery. Even those provinces which do authorize exemption from retail sales tax on production equipment tend to keep the exemption fairly limited. On this particular point, however, we should mention that, in the 1965-66 federal budget, announcement was made that the federal sales tax on production machinery and apparatus would be reduced to 6 per cent on April 1, 1967 and eliminated entirely on April 1, 1968. This was very welcome news to Canadian manufacturers.

88. One other feature of a manufacturer's sales tax is that it is imposed at the earliest level in the distribution process. This leads to a pyramiding of the tax burden and a greater cost to the final consumer than the amount of tax revenue actually collected by the government.

89. It is of interest to note, therefore, that in its submission in 1963 to the Royal Commission on Taxation, the association suggested that the present manufacturer's sales and excise taxes be replaced by a national sales tax at the point where goods pass to the end-user or consumer. The association commented:

90. "A sales tax collected at the final stage in the distribution of goods has the advantage of removing pyramiding (or markup) of the tax, which can be prevalent when the tax is levied at the manufacturer of wholesaler levels. It eliminates the problems of inequity in the tax base between goods produced by

different industries and between individual manufacturers as well. It also eliminates the inequities often created when imported goods enjoy a more favourable tax base than corresponding domestic goods.

91. "It prevents distortion that selective taxes, such as the special excise taxes, tend to create in the buying patterns of the economy. It places on an equal tax base those goods imported or purchased in bulk for re-packaging for resale in Canada and those goods manufactured in Canada for sale. Furthermore, it corrects discrepancies in the tax base between goods sold under a private brand name and those sold under a national brand name. Greater uniformity in the tax base is obtained at this particular tax level than at other earlier levels".

92. The impact of corporation taxes on final costs to the consumer varies greatly. Depending upon a number of factors, both external and internal to the individual firm, different proportions of the tax are absorbed by the shareholders. Some part of the total tax burden, however, is necessarily an added cost component.

93. The adverse effect of corporation taxes is even more pronounced on industries which produce for export or compete with imports. The Canadian top tax rate at 50 per cent compares unfavourably with the 48 per cent maximum rate in the United States. The differential, partly reflected in selling prices, does not appear to be appropriate for a developing industrial country such as we are. Neither is such a high rate of corporate taxation desirable from the domestic point of view, particularly if we want to generate more Canadian capital for investment purposes.

94. Monetary policy, through changes in the cost and availability of credit, directly affects manufacturers. Some of the problems of restricted credit conditions are summarized below.

95. If credit restrictions limit the expansion of Canadian output, producers of imported goods with sources of financing in their own countries may as a result expand their foothold in the Canadian market. Similarly, credit restrictions can face exporters with either a loss of export markets to foreign competitors or with an inability to expand their share of export markets as they should.

96. In periods of tight credit conditions, manufacturers find themselves called upon more and more to act as bankers to their customers. This is burdensome and represents additional costs to the manufacturer.

CONCLUSIONS

97. As the close examination of the pattern of industry selling price changes indicates, Canadian manufacturers have good reason to regard their price performance as one of moderation. In some industries international shortages of livestock and certain raw materials have exerted strong upward pressure on prices. In other industries, however, gains resulting from improved productivity are still being passed on to the customer in the form of lower selling prices. The record of the manufacturing industry as a whole has been comparative price stability. Even in recent months, with a growing number of firms caught in a profit squeeze, the rate of industry selling price changes has been considerably lower than increases in consumer and general wholesale prices.

98. The key to the moderation displayed by the manufacturing industry is competition. Canadian producers are keenly aware of the existence of domestic and foreign competitors; they are prepared to absorb as much of the rising unit costs as economically feasible without endangering the future of the enterprise. Thus, price increases at the manufacturing level indicate that the limits to the firm's own ability to accommodate higher costs have been reached. Even the truly big firms must keep a constant watch on their domestic and foreign adversaries.

99. Business prospers under conditions of stable and balanced economic growth. For this reason, the maintenance of reasonable price stability is just as much in the interest of industry as of any other group. Manufacturers seek to contribute to this objective by expanding their productive capacity, by producing more and creating more jobs and purchasing power in the process. They believe that the lasting solution to the problem of inflationary pressures is increased output.

100. Any additional costs imposed at the manufacturing level will have an increasing impact on the price of goods to the final consumer. It is of prime importance, therefore, to try to avoid incremental costs whether they occur as a result of government action, labour settlements beyond what the economy can afford, or the hazards of business decision-making which obiously cannot always be exact or perfect.

101. Much of our current troubles stem from forgetting the basic fact which the Economic Council of Canada so aptly expressed: "There is no way known to man of getting more out of the Canadian economy than is put into it." At times when conditions are buoyant, there is always a temptation to try to get everything, more goods and services, more wages, more tax-supported welfare programs, all at once. Each of these goals, of course, has merits of its own. But put together, they represent an impossible demand which the economy is forced to scale down through the inflationary process. Here, then, is the real "villain".

102. The spread of inflationary pressures can be halted by strengthening the supply side of the economy and by improving the best resource-allocative mechanism we have at our disposel, the price system. A public policy which pursues these objectives has the best chance of achieving continued prosperity for Canada.

The remainder of the text consists of comparative tables and source material. That is the end of our presentation. I wish to thank you.

(*See appendices following text*)

Co-Chairman Senator CROLL: As you went through your brief, I was just wondering, if we accepted all your recommendations, where would they get enough to pay for useful Members of Parliament?

Senator CARTER: Dr. Farrell, if I can start where you left off, with the "real villain," is it the opinion of your association that at the present time we are trying to take out more than we put in? Are we trying to take out more than the economy can support?

Dr. FARRELL: Very briefly, yes. We are at a condition of full capacity and the pressure to take out for various good and worthy causes is placing a burden which may very well result in further price increases and less buying power for the dollars we have got.

Senator CARTER: Could you go a little further and give us some idea of what you foresee as a result of the impact of this on the manufacturing industry?

Dr. FARRELL: Well, this is certainly off the top of my head, senator. So long as markets are growing, this burden can be carried, but, when we run into a period of much slower growth, then the first step can be declining profit margins, and the next step can be lower capital investment and lower employment. I am afraid that we are approaching that period.

Senator CARTER: The answer to the nation's problem, as you put it, is a stable and balanced growth.

Dr. FARRELL: Yes.

Senator CARTER: That presupposes an understanding of the goals and of the forces that work in the economy.

Dr. FARRELL: Yes.

Senator CARTER: Is your Association engaged in an educational program to your members? I notice that in one part of your brief you mention that even some of the manufacturers are not as well informed of these forces as they should be when they sit down to negotiate.

Dr. FARRELL: I would like Mr. Whitelaw to answer that question.

Mr. J. C. Whitelaw, Executive Vice-President and General Manager, Canadian Manufacturers' Association: Senator, the Industrial Economists Forum, which is made up of a number of the economists from our member companies and market specialists, is a body which meets from time to time with the expressed purpose of looking at the economy and studying it, and then disseminating the results of its findings to our membership. This is done in a variety of ways, through our literature such as circulars, "Industrial Canada", "Industry" and that type of literature. It is done initially through our structural setup, our divisions and branches and information is also disseminated through that particular medium. We have other committees, of course, and they are numerous that have to do with various aspects of the economy, industrial relations, technical intelligence, and export trade committees. All of these bodies have as their objects to study the problems peculiar to the manufacturing industry and are designed to enable the association to make appropriate representations to different levels of government, and to better inform our membership across the country in this very area to which you make reference.

Senator CARTER: When things are going well, and that, I presume, is when the rise in wages keeps pace with the rise in productivity—that is a basic tenet which you acknowledge, isn't it? Now when the labour force and the manufacturer get together to negotiate a new agreement, how much information do they have that will impress upon them—how much information do they have of the factors that are at work in both the productivity structure and the increase in wages so that they can keep their demands within reasonable limits? In one part of your brief you say, from what I can gather, that very often they are bargaining in ignorance. They see huge profits and there is a shortage of labour and so they go right in to get the most while the going is good. That might not necessarily be in their best interests.

Dr. FARRELL: I would say first of all that the creation of the Economic Council of Canada has done more to disseminate, to examine, analyse and publicize the facts of productivity, wages and profits than has ever been done before. I think I would have to say that much bargaining is done on the basis of strength against strength.

Mr. WHITELAW: If I might supplement that by saying that probably manufacturers and unions are well informed in the area to which you make reference, but it is not unlikely that the rank and file are not as well informed as they should be about the impact of their demands.

Co-Chairman Senator CROLL: Just following on that—how does a union leader sell to the rank and file something that appeals to him unless he discloses what he knows?

Mr. H. B. Style, Immediate Past President, Canadian Manufacturers Association: I think there is room for better educational communication both within the unions and as between management and its employees. A lot of that is going on at the present time. I know in most countries they are endeavouring to communicate better than they have done in the past, and to educate their own

people in some of these economic values. I believe there is room for unions to do more in this than they have done in the past.

Mr. C. A. Pollock, Chairman, Tariff Committee, Canadian Manufacturers Association: Regarding the relationship between manufacturer and union officers or stewards, a number of companies have labour-management committees that meet regularly and on the occasions of these meetings, the union is pretty well informed as to what is going on as far as the market place is concerned and as far as the individual industry is concerned, and I think good effect is thereby achieved. As Mr. Style said we certainly have a very complex economy and for people in industry and to know what is going on entails very careful and very diligent study. The dissemination of information to union members is not an easy thing. It takes a long time.

Dr. FARRELL: I would also like to add that industry certainly is aware of the presence of competition from others within Canada and is aware of the competition of imports so it is working within limits within which it feels it can bargain.

Co-Chairman Senator CROLL: You are going to have plenty of time to answer questions so please don't try to answer them all at once.

Senator CARTER: On page 15 you say "In the second quarter of 1966, wage increases recorded a peak, running at a 9 per cent rate. By comparison, during the previous economic expansion in Canada the peak was about 7 per cent in early 1957." What was the main factor in each of these years?

Dr. FARRELL: Have we the basic statistics there, Mr. Bartha? I believe the quotation is from the Economic Council report and I was consulting with our staff economist to see if he could identify where he found that.

Co-Chairman Senator CROLL: The question was what were the factors contributing to the increases of a 9 per cent and 7 per cent.

Dr. FARRELL: Yes. A part of it would be a very tight labour supply and strong bargaining positions. I would single out those two, a very tight labour market and very strong bargaining positions with the greatest strength showing in 1966 and 1957. I think we were in a tighter labour market in 1966. The reference is on page 132 of the third Annual Review of the Economic Council.

Co-Chairman Senator CROLL: Senator McGrand, you had a question.

Senator MCGRAND: On page 8 you say that employees desire security of employment above all else in their jobs. Now I would take it that if it were not for this job security, and if someone was being laid off and taken on at the convenience of the company without any attention to this job security that a company could, perhaps, make more money and make more profits and the employee would survive by some other method. Now what has this job security cost industry in putting into effect or trying to put it into effect and maintain. What has that job security cost industry in total?

Dr. FARRELL: There is a cost involved and I am tempted to draw on the experience of some manufacturing presidents here.

Senator MCGRAND: Would it be a major cost or only a very, very minor cost? Is it a cost that is worth considering?

Dr. FARRELL: It is very difficult to measure it. How about this, Mr. Engholm?

Mr. ENGHOLM: The figures are not known today, but it is a difficult cost to arrive at. I would not think that we put it in as a high cost.

Senator MCGRAND: It seems to me that, when you are studying as closely as you do all the factors that enter into the field of rising prices, you would give some consideration to a subject that you consider is quite important, job

security. You say that job security is the most important thing the labouring man thinks about as far as his work is concerned. If it is that important, it must have been given some consideration in the preparation of the investigations that you have carried out as to the rising cost of goods.

Dr. FARRELL: If I may commence the answer to that, I would say it is the feeling of responsibility for expanding employment which is very present in the minds of Canadian manufacturers. They wish to strive to grow, to have an expanding labour force, if they can, to avoid this problem. In short-term periods people are not let go quickly; they are kept on, to be sure that business will turn a little better. They hope against their better judgment sometimes that things are going to turn better.

Senator McGRAND: I know what you mean, but it must be quite a factor in the planning of your expansion in your industry when you know you have to write into that expansion the increased cost of maintaining job security.

Dr. FARRELL: That is right.

Mr. POLLOCK: One of the very important things would be the flow of work that would take place in an organization. We do not spread work out over a long period of time, but we try to arrange it so that there will be steady employment.

Then there are the long-service employees in a company. You do not let the long-service employee go, but find a place for him. He may or may not be as productive as you would like, and may not be able to earn what you are paying him. It is almost impossible to assess all these things, but it is a very definite factor which enters into the image of the company in relation to its employees. We are saying that in the employees' mind this is the important thing. Therefore, we endeavour to give as steady employment as we can.

Senator McGRAND: Is it general throughout the manufacturing industry for companies to recognize the long period of service which a man has worked for the company and in some way compensate him, and overlook his lack of productivity at the time and keep him on as a sort of human relations effort?

Mr. POLLOCK: I would say that as far as most companies are concerned, this is the sort of performance they give.

Mr. STYLE: In most of our contracts we have seniority clauses which take care of the older employees. The man with the longer term of employment is last out.

Co-Chairman Senator CROLL: I gather from what Mr. Pollock said, whether you have it in writing or not, that is the general approach.

Mr. STYLE: Yes, it is.

Mr. ALLMAND: Dr. Farrell, do you have members in the Canadian Manufacturers' Association from the food industry—in other words, the people who can and bottle and so forth?

Dr. FARRELL: Yes.

Mr. ALLMAND: Do most of the major food producers belong to the Canadian Manufacturers' Association, the ones who have appeared before us—Heinz, Procter and Gamble, Libby's, etc.?

Dr. FARRELL: Yes, they do.

Mr. ALLMAND: On page 3 of your brief, at the bottom of the page, you say that "profits as a percentage of sales and net worth have been relatively lower in Canada than in other countries." Do you have any figures on that? Do you have the comparable figures between Canada and other countries on which you base that statement?

Dr. FARRELL: There are two references in the text to that. On page 12, at the bottom, there is a comparison of after-tax profits in manufacturing as a percentage of sales and net worth in Canada and the United States.

Mr. ALLMAND: I saw that. You said it is lower in Canada than in other countries.

Dr. FARRELL: The other reference was at the top of page 13, where a survey took place in 1961—and I think there was one since that time—by the National Industrial Conference Board of the United States, regarding American companies with subsidiaries in various foreign countries, the profit on investment of their subsidiary companies, and Canada comes out rather low in that comparison. Canadian manufacturing does come out at the lower end of the range of profitability of American subsidiaries in companies around the world.

Mr. ALLMAND: This is just with respect to subsidiaries here?

Dr. FARRELL: Yes.

Mr. ALLMAND: You do not happen to have a table of profit margins in Canada as compared to other leading industrial countries?

Dr. FARRELL: Aside from this particular study I do not recall.

Mr. WHITELAW: We might undertake to do that.

Mr. ALLMAND: We have had comparative studies of increases in the cost of living, and so forth, in other countries, and it might be interesting to compare our profit rates with other countries.

Dr. FARRELL: I think that is something we might leave with the staff.

Mr. ALLMAND: Then I will move on to something else.

On page 4, in paragraph 10, you state, "The brief stresses the role of the price system as the best means of allocating resources in a competitive economy."

You say, further down, that, "a formal incomes policy would not be an effective way of meeting the problem "of high levels of employment together with reasonable price stability in the Canadian setting."

What I would like to know from the Canadian Manufacturers' Association is what solutions you propose to the high prices we have had over the last year. We have had great increases in food prices which have left a lot of people on fixed incomes in a bad position. You say you would leave it to the marketplace, but the marketplace has not seemed to be very satisfactory with respect to a lot of people, and many people are giving us solutions. We do not know whether they are good or not, but some people want to restrict advertising, some want to do away with gimmicks, others want a price review board or a department of consumer affairs, because they think this will help the situation. You say you want to leave it to the marketplace. It seems that if we do just that we might have a repetition of what we did have this last year. You say you consider price increases important from the manufacturing point of view. It seems they hit harder though at people in non-manufacturing, for the small man on a fixed income. I would like to know what you propose for more stable prices.

Dr. FARRELL: I think you would agree prices can be brought down by increasing supply. If you increase the supply of goods, that will tend to bring down prices. We feel a high price now will induce an expansion of production which will bring down prices later. The other way is to restrain demand, which is a feature, in my view, of taxation and monetary policy. It is harsh and rather blunt in its impact on particular groups, but it does subtract from demand, and that tends to pull down prices.

Mr. ALLMAND: Mr. Rasminsky in a speech in Rome recently, and also the Economic Council, I think, said we have to come to consider that fiscal and

monetary policy is not sufficient any longer to do these things, to maintain stable price levels.

Dr. FARRELL: I believe he said monetary policy was not doing the job of stabilizing, but I do not know about fiscal policy. He said that monetary policy was being asked to do too much. Fiscal policy is an unpleasant way of taking money away by taxation, thereby subtracting from demand.

Mr. ALLMAND: I understand you believe fiscal policy is the principal means of dealing with wide swings in prices, and this is what we have to rely on?

Dr. FARRELL: Yes, I would lay my emphasis in that direction.

Co-Chairman Senator CROLL: I gather he is going to be sending up shouts of "Hurrah!" when Sharp puts on the new tax.

Dr. FARRELL: Since we do not know what he is going to do, we really cannot answer that yet.

Mr. ALLMAND: May I ask you a further question, sir? Do you think that the application of fiscal policy in Canada at present is satisfactory? Do you think that we have sufficient tools to do this in Canada? I think that Dr. Deutsch before this committee said that we do not yet have enough information to be able to use fiscal policy to its best advantage. What is your opinion of that?

Dr. FARRELL: I would regard fiscal policy as a blunt and useful instrument. There are a lot of things it cannot do, but it can assist policy. Far be it from me to argue with Dr. Deustch. I respect his judgment and experience, and I would defer to his general conclusion.

Co-Chairman Mr. BASFORD: Mr. Allmand's first question was: Is fiscal policy doing enough now?

Dr. FARRELL: We are gradually swinging into it. I would say that the fiscal policy in the budget of 1966 did, with a time lag, what it was meant to do, but it takes time to work. Another very pertinent question at the moment is: Where do we stand in relation to business in the next 18 months. Is it likely to slump? If it is, then that calls for avoiding restraints. If the prospect is for an increase, well then—if the upward trend of business is still there then some measure of restraint is called for. We are back to making assumptions as to the course of business in the next 12 months, and it is on that basis that the mini-budget of this month will be decided.

Co-Chairman Senator CROLL: That is what economists like you are in business for. Let us have your view. You are a top economist in this country.

Dr. FARRELL: Promoted to it. I am concerned about the creeping restraint that seems to be developing in Canadian manufacturing today. I think that we are edging downwards. I think that the trend of—

Mr. ALLMAND: In respect of capital investment or sales?

Dr. FARRELL: In both capital investment and sales I think we are starting to slump. It is my hope that this will not be for long. I think corrections are likely to show themselves by spring. I might be wandering a little too far from my subject here, but my impression at the moment is that we are into a slow-down period in capital investment, and in sales in durable manufacturing, and we are going to have to sweat this out. We are definitely into a profit squeeze, month by month, right now.

Mr. ALLMAND: I wanted your opinion mainly on the measures you thought should be used to give us price stability in Canada. You say—and I guess it is the opinion of the Canadian Manufacturers' Association—that the main instrument is monetary and fiscal policy.

Dr. FARRELL: With the emphasis switching towards fiscal.

Mr. ALLMAND: Yes, with the emphasis on fiscal policy.

Dr. FARRELL: And without forgetting a supply policy. Let us not cut down capital investment to the point where it is contributing less than it should to employment and to the future increase in supply. That is the sad part of the restraint, because it does fall on capital investment and it does fall on modernization and growth.

Mr. ALLMAND: What is the opinion of the Canadian Manufacturers' Association with respect to proposals that we have restriction on advertising in some way or another. This morning the witness proposed that not all advertising expenses be deductible as an expense for income tax purposes, but only a percentage. What would be your opinion on that?

Dr. FARRELL: I would like to draw some of the active manufacturers into this discussion.

Mr. POLLOCK: May I ask you a question? Who is to be Solomon who sets the rates.

Mr. ALLMAND: Excuse me.

Mr. POLLOCK: Who do they propose would be the Solomon who would set the rates?

Mr. ALLMAND: I suppose the same Solomon who sets all the other standards.

Mr. POLLOCK: Advertising costs vary from one industry to another.

Mr. ALLMAND: I am just repeating the proposal that was put to us this morning to you people. I am not taking a stand in favour of it yet, but I would like to know the arguments for and against it. This morning we had the arguments for it, and I would like to know what are the arguments against it from the Canadian Manufacturers' Association.

Dr. FARRELL: There has been no official policy statement on that matter.

Mr. ALLMAND: We have had two witnesses who have proposed the same sort of thing with respect to advertising, gimmicks and so forth.

Dr. FARRELL: I think we are wrestling with a very real problem here. There is the informational side of advertising which does help industry to adopt new ideas and the best techniques, the best machinery and the most efficient way of doing things. That does contribute to a better use of our manpower and a more productive Canada.

Mr. ALLMAND: The people before us admitted that, but they said there was more wasteful advertising beyond that. This is what we have to decide as a committee.

Dr. FARRELL: Let us admit that there is some advertising that does seem to be mutually—

Co-Chairman Senator CROLL: "Wasteful" is the word he used.

Dr. FARRELL: I hesitate to use the word. I would use in its place "cancelling out". Advertising is expensive to business, and if it does not produce results then the next time around the advertising manager will not get that amount of money. It is an expense to help a business grow and prosper. If it does not yield a return then the budget is cut. I know our own advertising manager has a pretty hard time of it every year in respect of the budget he gets. If he does not produce results of a measurable magnitude then he does not get the money.

Mr. STYLE: I think there may have been some confusion in respect of this question of advertising. The great majority of products that are advertised—I am not thinking so much of consumable goods as I am of hard goods. I am quite convinced—and I think everyone in that type of industry is—that the expenditure on advertising has reacted very much to the benefit of the public. For

instance, in the appliance industry, which is one of the industries that has reduced prices over the last ten years, if we had not been able to advertise new types of appliances and communicate with the public, and tell them what they could get out of it, we would never have been able to build the volumes or able to give the public the better price.

It is very difficult to generalize about advertising, and to say that because someone says a particular type of advertising for a particular product is bad, then it is all bad. It is not. I think all of our industrial development in both the United States and Canada, and the higher standard of living that the two countries enjoy, is very largely due to good advertising of products, and to letting the people know what they can get.

Mr. POLLOCK: I would back up what Mr. Style has said. We must remember that advertising is not an exact science, or an exact art. If the batting average is 75 per cent, then it is doing very well. Advertising budgets are scrutinized very carefully year in and year out by industries that spend a lot of money on advertising, and this is the only way in which they can keep advertising serving their operation usefully.

We must remember too that there is a great deal of advertising that flows across the border by way of magazines, radio and television. Canadian firms must spend money in order to compete with the attractiveness that is being presented to the Canadian public by advertising entering the country in this manner.

Mr. ALLMAND: Of course, you have brought up an interesting point. One of the witnesses who proposed a restriction on advertising pointed out that we already had it with respect to advertising in American magazines. It was said that if we can do it for nationalistic purposes, for the purposes of promoting Canadian magazines, then maybe we could also do it for other purposes such as trying to cut out excess expenditures in this area, thus reducing costs and prices. If we can do it in one area perhaps we can do it in another area.

Mr. POLLOCK: Advertising is basically a communications medium. It tells people about things in which they are interested. Retail stores and manufacturers must communicate the specifications of their products and the value that they can mean to the customer. As Mr. Style said, a good deal of the standard of living in this country and the United States has been brought about by the public's understanding of what manufacturers produce for the public, and what they make available to the public.

Mr. ALLMAND: Do you honestly believe that in order to have the large markets that you have that you require these large advertising budgets; that without the large advertising programs we could not obtain these large markets? Is that correct?

Mr. POLLOCK: To some extent. There is competition, of course. Each man puts his best free-enterprise foot forward and tries to sell as much as he can. This is in the best interests of serving the public and from the point of view of providing a good price. Certainly if we do not inform the public we cannot expect them to respond.

Co-Chairman Mr. BASFORD: You mentioned in your brief—"we must increase our productivity and should take all steps to encourage our productivity." On page 18 the brief states:

> This is particularly evident for those manufacturers who are actively engaged in the export trade, a field where international competition weeds out the inefficient in short order.

Is it not just as desirable to weed out the inefficiency in the domestic market?

Dr. FARRELL: It happens quickly in the export trade. As you get back into the sheltered industries, the domestic industries, yes, we do have foreign competition by way of imports, and the effort towards better productivity is appropriate everywhere. However if we lose ground in exports we have lost in a hurry—we are out of the game quickly.

Co-Chairman Mr. BASFORD: But would not much freer trade into Canada be one of the best ways of eliminating inefficiencies at home and increasing our domestic productivity?

Dr. FARRELL: In another point in the brief it was mentioned that the trend of import tariffs in Canada has been drifting downwards say compared with 15 years ago, with a much lower level of tariffs, and I think the exposure of the Canadian economy to foreign competition is greater.

The other side which others will raise is that when we are right up against an American economy which has the advantages of scale and technology, research and development, can we keep up with these people all the time on a duty free basis? I think we get some difference of opinion even from the C.M.A. on that. The case for a modest level of tariff protection might be explained by someone on our tariff committee.

Co-Chairman Mr. BASFORD: I want to put this before Mr. Pollock goes, and he can correct me if I am wrong, that Canadian Manufacturers' Association has historically been the most persistent and powerful lobby against the reduction of tariffs?

Dr. FARRELL: It has changed a great deal. I do not think we can say that is the case now, because the membership does include large and small exporters, sheltered domestic producers. Officially, I do not think it can be said now it is any longer a tariff lobby.

Co-Chairman Mr. BASFORD: I looked up the 1966 annual report.

Dr. FARRELL: That is a good source.

Co-Chairman Mr. BASFORD: And throughout I did not see any great cheering for freer trade. I see a reference in the report as follows:

> The association has expressed its appreciation to the Government for measures which have been taken to effectively control excessive imports of certain sensitive goods into Canada.

That is dealing with voluntary quotas, like Japan. It continues:

> Certain safeguards to Canadian industry have been written into the new section 37A.

Then on another page:

> Because tariff concessions made by Canada to the United States would automatically be extended to other countries under our Most-Favoured-Nation trading policy without obtaining any reciprocal benefits,.....
> .....The association has requested the Canadian Government to exercise caution should this happen.

In the brief the only tariff reduction specifically asked for is one that did allow your members to import certain plant and machinery not made in Canada.

Mr. WHITELAW: Before hearing from some of my associates on the left, may I supplement my remarks? I suggest to you that there is nothing in that annual report presented to our annual meeting last June which permits anyone to draw the conclusion that the Canadian Manufacturers' Association is a high tariff organization. I emphatically state for the record that C.M.A. is not and has not

been a high tariff organization. This is a myth that needs to be destroyed and should be destroyed here and before any other forum. There is a vast difference between asking for a reasonable tariff policy for this country of ours and declaring that the tariff must be an insurmountable one, a high wall over which goods coming into Canada should not be permitted to enter. The association holds to the philosophy that freer trade, not free trade but freer trade, is a healthy situation for this country. That is the position the association espouses today and has espoused for many years.

Any reference to GATT,—and I will call on one of my associates to speak on GATT, because he is better informed than I am—Mr. Basford, is simply a statement of the fact that we are in the midst of negotiations, the end result of which can have some very substantial impact on Canadian manufacturers. Anything else but to rationalize reasonable protection for domestic industry, not hothousing industry, not in any sense of the word suggesting that we wish for inefficient manufacturing operations, would not be acceptable. We hold no brief for that type of operation. May I call on my associate?

Mr. McCutcheon: Before hearing from him, what would be the stand of the Canadian Manufacturers' Association on an enlargement of the free trade pact, such as we have in the automobile business? Would this mean that with your products there would be a tremendous reduction in prices such as there has not been in the automobile business?

Mr. Whitelaw: I will call on one of my associates to answer that.

Mr. Richard Lang, Manager of Tariff Department, Canadian Manufacturers' Association: Within the association's policy, the association is fully in support of the objectives of the General Agreement on Tariffs and Trade. This is an organization of over 80 nations who are meeting together to lower tariffs on a reciprocal mutual basis. It is true that everybody is in there negotiating on their own behalf and do not want to give any more than they get; but on an over all basis we support this policy. In the context of that we are primarily saying, in one way, that we should not be giving away more than we are getting. In other words, we are saying open the door for Canadian manufacturers and export more manufactured goods. This is going to broaden our base. One of our problems in Canada has been the case of a small domestic market and shorter production runs, and therefore costs are so much higher than some of our competitors in the United States.

To answer your question about the automobile agreement and probable recent discussions about relations with the United States, etc., that is a matter that is being given close examination in our committees.

I would not hesitate to say that the majority of Canadian manufacturers are opposed to Canada becoming too closely tied economically or politically with the United States. This does not mean, however, that Canadian industries comparable to the automobile industry, cannot find advantages in getting into a broader American market so that they can have longer production runs. There may be advantages to some of our industries, and we certainly would not oppose any negotiations on a mutual reciprocal basis, provided some safeguards are put into such agreements, as in the automobile agreement, where we are assured there is going to be increased Canadian production over a period of two years. I think this is only reasonable and it is one of the safeguards that we mentioned in our brief which should be looked forward to in regard to our Canadian economy.

Co-Chairman Mr. Basford: Some time in the spring of next year we are going to have a budget for the next fiscal year. It is the policy of the association,

I believe, as with others, to make an annual presentation to the Government before budget time. Do I take it from what you have said that your presentation to the Minister of Finance for the next fiscal year will be beating the drum for freer trade?

Mr. WHITELAW: I cannot forecast at this stage what the content of the brief will be. We are hammering it out at the present time for submission, and certainly our policy in respect to promotion of trade will be receiving very careful consideration. I would say it will be consistent with my observations of a very few minutes ago, namely, that we look with favour on freer trade. That, I suggest, is the context of the area within which we will be making our representations in the portion of the brief which deals with trade as distinct from taxation and other aspects of our submission.

Co-Chairman Mr. BASFORD: The Economic Council, in its Third Annual Review, page 29, says this:

> In this context, Canada has clearly reached a stage in its progress towards economic maturity which warrants a much closer look at the possible contributions which freer trade could make to productivity growth in various sectors of the economy. Increased specialization, leading to increased international marketing, could add significantly to the growth of real income per capita.

Would you support that?

Mr. WHITELAW: I would say so.

Co-Chairman Mr. BASFORD: Having got the Manufacturers' Association out for free trade—

Mr. WHITELAW: Freer trade?

Co-Chairman Mr. BASFORD: I would like to change for a moment to a matter which is of great importance to your members, a matter before this committee, namely, the question of corporate disclosure. As you are undoubtedly aware, we have asked corporate witnesses who have been here, many questions and for a great deal of information disclosing their sales figures and so on. Many of them are private companies and therefore those figures have not been available previously. The Stewart Royal Commission recommended in 1959 or 1960 much greater corporate disclosure. What is your position on this?

Mr. H. J. Hemens, Chairman, Committee on Corporation Law, Canadian Manufacturers' Association: On the question of corporate disclosure, you are aware of the new provisions of the Canada Corporations Act, which provide for considerable disclosure, considerably greater disclosure than was the case in the past.

Many of our members are also "caught"—I use the word inadvisedly—under the new provisions of the new Ontario Securities Act, in respect of disclosure under those new provisions. The act, as you know, has not yet been proclaimed but is expected to be proclaimed shortly.

We find that, despite considerable research, the requirements for corporate disclosure are not effectively much greater than those which the federal Parliament brought into effect in the amendment of the Canada Corporations Act. That is, corporate disclosure. Was your question also concerned with directors and officers disclosure?

Co-Chairman Senator CROLL: That is provided under the Dominion Act now.

Mr. HEMENS: Directors and officers disclosure, yes, in a rather lesser way than it is or will be provided under the Ontario Securities Act, but certainly it is in effect, the disclosure is habitual and monthly.

Co-Chairman Senator CROLL: Yes.

Co-Chairman Mr. BASFORD: American subsidiaries operating in Canada that are wholly-owned by their parents are of course private companies, or most, by and large, are at least in that they have one shareholder, the American parent, and consequently have to disclose very little indeed. The parent company issues a consolidated balance sheet in which the Canadian figures are indistinguishable. Does the association have a position on this, that such companies, including the Canadian private companies themselves, should have to make the same disclosure as public companies?

Mr. HEMENS: I cannot answer whether the Canadian Manufacturers' Association has a position or not. I have a position.

Co-Chairman Senator CROLL: What is it?

Mr. HEMENS: My position is that wholly-owned subsidiaries of American or other foreign public companies should be under the same obligations as is a Canadian public company. I do not think this is necessarily true of the smaller type of companies. There, of course, you are into the same position as we were in a few minutes ago, of who is going to be the Solomon. I cannot say that it is in the interest of the country, in the interest of the public, or in anybody's interest that small private companies should be charged with the obligation and the cost of the sort of disclosure which is required now of Canadian public companies.

Co-Chairman Senator CROLL: The British, who have had a lot of experience in this field, in their new law provide for disclosure by private corporations.

Mr. HEMENS: I cannot quarrel with you on that, senator. I have been reading up on it. I was not aware that they had gone so far.

Co-Chairman Senator CROLL: The act is there. I will not say that it has been passed. It is part of the total act.

Mr. HEMENS: My impression is that it has been in contemplation since the time of the Jenkins Commission of about six years ago.

Co-Chairman Mr. BASFORD: The distinction between private and public has been the number of shareholders?

Mr. HEMENS: That is right.

Co-Chairman Mr. BASFORD: Possibly some criteria on the basis of the sales could be worked out?

Mr. HEMENS: Total assets, possibly.

Co-Chairman Mr. BASFORD: You have taken the same position that the committee had, that we could hardly say that a manufacturer like Dominion Stores, which is a public company, has to issue a public financial statement, and that Great Atlantic and Pacific Tea Company, a large corporation in Canada, has not.

Mr. HEMENS: There is certain information available, of course, to the Government under the Corporation and Labour Unions Returns Act.

Co-Chairman Mr. BASFORD: But confidential information?

Co-Chairman Senator CROLL: Some of it is not confidential.

Mr. HEMENS: That is a matter for the Government to decide, whether it is confidential or not.

Mrs. MACINNIS: On advertising, do you think any useful line could be drawn between advertising which is informative or communicative in its nature, and

advertising which is high pressure persuading? Is there a possibility of drawing a line there? We are being approached by people who think such a line should be drawn.

Mr. POLLOCK: I always say with regard to broadcasting that there should be about 10 per cent educational content in the broadcast. Most advertising has some educational value. Where you divide the two I would not know, I do not think it would be possible.

Mrs. MACINNIS: Would this hold good in such type of advertising as gimmicks, in package devices or on package give-aways? That is really basically advertising or promotion. Would it be possible to come up with a given line where competitors would find that these things were outlawed or discouraged? Would that seriously affect the business?

Mr. POLLOCK: I do not know enough about retail business to give an opinion, but these large organizations do not spend money on wandering ideas. They spend it to bring sales to their organizations and undoubtedly these things are serving that particular purpose.

Mrs. MACINNIS: On page 3 of your brief you say:

> We wish to assist the work of this committee by submitting our views on the pattern of price movements and the relationship between prices, profits, wages, productivity and other factors affecting manufacturing operations. However, it has been a long-standing policy that price structures, price policies and the establishment of manufacturers' prices do not come within the scope of the Association's work.

Why is that so?

Mr. WHITELAW: This certainly has been our policy over many years. The question of price structures, price policies, the establishment of manufacturers prices, this question has always been the prerogative and the responsibility of the individual members of the association. We have never in the past, nor do we now, concern ourselves with policies in that particular respect. We are not unmindful of the fact that there is legislation on the books of this country that makes it obvious as to why, among other reasons, we should remain aloof from intervention of that kind.

Mrs. MACINNIS: Have you any policy regarding the desirability of income distribution and trying to get some kind of stabilized income levels for poor people? To give a pointed example, there are over 27,854 Canadians reporting incomes of over $25,000 in 1965, a jump of 25 per cent over that of 1964. At the other end of the scale, the number of people in the $1,000 to $2,000 bracket also increased during that period. Now, what effect does this widening gap in income have on manufacturing and on the sale of your products to consumers.

Dr. FARRELL: Well, I think, if there are people with incomes of $25,000 or more, certainly there is considerable more investment in Canadian enterprises. That is the income group that does provide the investment of new capital to keep Canada Canadian, I would say.

Mrs. MACINNIS: What I am trying to get at is this: you are saying that guidelines possibilities affecting wages and prices and productivity together, and so on, are not desirable. What is your policy for seeing that your products are sold and that price levels are kept stable, having in mind incomes at the same time? What is your policy for the relationship between prices and incomes and productivity?

Dr. FARRELL: We are back to individual opinions, I think. I do not think there is a C.M.A. policy on record on that. Certainly, if it is the feeling of the Committee and public that high incomes must be confiscated by taxation—

Mrs. MacInnis: I am not talking about that. I am talking about trying to keep the thing in balance. To give you a specific case, for instance, where you have pensions and low incomes in forms of social allowances and that sort of thing, would you be in favour of tying those allowances and pensions to a rise in prices or to a rise in productivity?

Dr. Farrell: There is no official policy, and any expression is just an individual opinion, but the point that would concern me is whether in the pursuit of a personal income distribution policy we would impede the trend towards good productivity performance in industry and employment generally.

Mrs. MacInnis: Well, has this been the result in Sweden? When the head of Sweden's Economic Council was before us a little while ago, he told us that such was the case there, that pensions and lower incomes were tied to the cost of living. Has that impeded their productivity?

Dr. Farrell: I was in Sweden a month ago myself, and there are certain features of Swedish life that I feel need exposure, as being far short of the North American performance. There is no question that the Swedes have done more than we have towards the redistribution of income. But there are other prices that they have to pay in the form of corporate initiative, I believe, although they have individual initiative. The Swedes, interestingly, and I think this was probably brought out by the previous witness referred to, have, along with the redistribution of income policy, bent over backwards to help industry to keep a strong profit re-investment program going. This might appear to be choosing opposite poles, but they have, I think, accomplished the modernization of industry by very generous allowances to corporations to keep reinvesting their profits.

I am in danger of getting beyond my depth, Mrs. MacInnis.

Mrs. MacInnis: Has your organization a policy for trying to see that incomes are tied to prices? You see, we are faced with this rise in prices situation. Has your organization anything to do with a policy on also keeping incomes rising to meet those rising prices, particularly in lower brackets?

Dr. Farrell: Well, we usually have that pressure exerted on us through the trade union movement to keep the wages as high as we can afford within our productivity and within our profits.

Mrs. MacInnis: But I am not even talking necessarily of the entire wage earning group, because there is management and labour and these often appear to some other people as more or less the whole thing, and they forget about the group of people who are not even able to get wages. I am very anxious to find out whether your Association ever thinks of that low income group or takes it into its calculations at all.

Mr. Whitelaw: I think, Mrs. MacInnis, it would be safe to say that, as a responsible organization, we are concerned over the position of the lower income people; particularly the fixed income people. But I would just like to make this observation, if I may: I hope that we, as an association, are not in any way desirous of seeing earnings in Canada depressed. We are most desirous of seeing healthy earnings and healthy incomes tied in with productivity. The better the productivity, the better the capacity to pay income; the better the income, the better the prospect of selling more products and stepping up our production. This is our philosophy, without having what might be described as a formalized policy. But this is certainly the approach that the Association takes to this question of enhancing the purchasing power of the Canadian public.

May I just make one other observation? I think you mentioned something about people earning $2,000 or less.

Mrs. MacInnis: Between one and $2,000.

Mr. WHITELAW: There must be a very large number of people, I suggest, in that group who would be part-time workers, because it does seem to me that even the minimum wage legislation of our province makes it mandatory that the income would be in excess of that particular figure. It must be a very substantial number of people, therefore, who would be working part-time.

Co-Chairman Senator CROLL: Let us get on. Are there any more questions, Mrs. MacInnis?

Mrs. MACINNIS: Well, I imagine that that is a fairly fair statement except for one more thing, and that is that in the paying of wages, forgetting about the ones who are not getting wages, and just concentrating on those who are earning wages, would you believe that there should be escalator clauses to ensure that wages would go up in accordance with productivity?

Mr. WHITELAW: I would say there is certainly much to commend that. We have no formal policy in that direction. I am not trying to evade the question, Mrs. MacInnis.

Co-Chairman Senator CROLL: I have noted Senator O'Leary and Mr. O'Keefe, but before I let them ask questions I have two questions of my own. I will ask one and save the other. The brief presents a case here complaining, not improperly, against, or at least bringing to our attention, high corporate taxes, tariffs, sales taxes and other taxes, and then it finishes up at the bottom of page 20 by speaking of another factor, namely, the cost and availability of credit.

Anybody in your delegation may answer the question that I am going to ask, because it affects them all. Most of the members of your delegation here today are people who have borrowed money from the bank, and they have credit in the bank. That is true, is it not?

Dr. FARRELL: Yes.

Co-Chairman Senator CROLL: Many of them are leaving in the bank a compensating balance, paying a service charge and paying standby fees of 1½ per cent. Why have you not got a brief before the Banking Committee complaining about that aspect of the cost of credit?

Mr. W. D. H. Frechette, General Secretary, Canadian Manufacturers' Association: Mr. Chairman, my name is Frechette. I am the General Secretary of the Canadian Manufacturers' Association.

Co-Chairman Senator CROLL: I was hoping that one of the businessmen would take the question, but that is all right, go ahead.

Mr. FRECHETTE: The money market in Canada is a pretty efficient organization and the very purpose of monetary policy in the time when restraint is appropriate is to raise the cost of credit in order to put a dampener on demand. If the regulation of the banking system makes it impossible for business borrowers to get the amount of credit they need for their operations, they are forced to seek their necessary capital from other sources. Experience indicates that this will be very much more expensive than the costs to which they are subjected by the bank.

Co-Chairman Senator CROLL: I do not want to embarrass you, but that was not my question. You were not answering my question. Perhaps it is not possible to get an answer, but what I asked was why you were not making representations to the Committee against that practice which has found its way into this country in more recent years. That was my point.

Mr. FRECHETTE: I should have answered your question more directly, sir. The Association did present a comprehensive brief to the Porter Commission in 1963. Much of the philosophy of that brief and many of our specific recom-

mendations were accepted by the commission and incorporated in their report and have to a satisfactory extent been reflected in draft legislation.

Co-Chairman Senator CROLL: The difference is that the recommendations you made to the Porter Commission were made behind closed doors.

Mr. FRECHETTE: Oh, no. They were made at open meetings.

Co-Chairman Senator CROLL: They were open to the public—well, then, I take that back. But if you made these recommendations to the Porter Commission, that was three years ago. Were you talking then about compensating balances?

Mr. FRECHETTE: Yes, they were mentioned at that time.

Co-Chairman Senator CROLL: But were they imposed on people in your organizations three years ago?

Mr. FRECHETTE: Their effect was well known because they had been used in the United States.

Co-Chairman Senator CROLL: Of course they had been used in the United States. But this is a recent innovation. When you talked to the Porter Commission they were not in effect in this country. Since they are in effect I am asking why you are not making representation before the committee on banking where they can be dealt with. I think I know the answer.

Co-Chairman Mr. BASFORD: Surely if you all stick together the banks cannot call all your loans.

Co-Chairman Senator CROLL: Senator O'Leary.

Senator O'LEARY (*Antigonish-Guysborough*): I have two questions, each of them relating to efficiency. My first question, Dr. Farrell, is based on the fact the agricultural industry in Canada is more efficient than the manufacturing industry. Do you accept that statement?

Dr. FARRELL: Not without qualification, no. I think what you may have in mind and what I would agree with is that the pace of productivity improvement in agriculture in the past ten years has been sharper than it has been in manufacturing. But as for the value of output per man in agriculture as compared with manufacturing, it is lower.

Senator O'LEARY (*Antigonish-Guysborough*): This is a point I am making with regard to output. Your bible which you have been quoting very extensively, must bear me out that as a general rule the agricultural industry is more efficient. You can use any number of terms to explain this efficiency, but going on this basis and accepting that part of my general statement, what in your opinion is the reason for this? We have received various reasons from other witnesses and I would like to know yours.

Dr. FARRELL: The increased application of capital to assist labour on the farms, the enlargement of farms, the increased use of fertilization, better seeds and species, perhaps more efficient marketing between the farmer and his market—these all contribute something, but I think the increased use of machinery on the farm and the increased use of machinery with livestock and increased capital investment, enlargement of the farm unit—I think these have all played their part. However, let us take a look at farms in certain parts of Canada—

Senator O'LEARY (*Antigonish-Guysborough*): Take the industry, don't start taking particular farms. We are talking about comparisons with the industries.

Dr. FARRELL: There has been a great improvement but despite this there has been a considerable drift of manpower from the farms seeking opportunities in

industry which is, perhaps, a reflection of diminished population needs in farming. I would not have been able to tackle this question but for the fact that I was an agricultural economist before I came into industrial economics.

Senator O'Leary (*Antigonish-Guysborough*): My next question deals with efficiency again. Why is there this rather severe gap between our Canadian manufacturing industry and the American manufacturing industry?

Dr. Farrell: This has concerned us a good deal too. The tenor of your comment is why is it that the $100,000 of investment in Canadian manufacturing does not yield the same value of output as it does in the United States. I can think of two main reasons, the first is that in the past decade large capital investments have been made in the resources component of Canadian manufacturing such as the mining and smelting component and the chemical industry component where the necessary investment has been in large lumps, and we are not getting the pay off from these large lumps. The second reason is that we still have this persistent problem of small runs of a size. This results from the limited size of the market. The steel industry of Canada which I happen to work with would be at its most efficient with maybe one or two companies supplying the Canadian market and concentrating to get a large volume at their most efficient plants. We are not recommending consolidation, particularly when you have firms like Dosco which must survive. I get back to the point I made earlier about smaller production runs, and we are making progress on that.

Co-Chairman Senator Croll: I have heard it said and I have made the statement myself, and I consider it to be an authoritative statement that the Steel Company of Canada is as efficient as any similar company in the United States as a result of automation and a lot of brains at the top.

Dr. Farrell: I hesitate to take that compliment in its entirety because I will say that in terms of physical equipment we do match up and the same could be said of numbers 2 and 3 in the industry. We do match the best to be found in the United States, but we also have this persistent problem of small runs when you get out to the rolling stages. The necessity of making small runs and marketing right across Canada, selling in small lots, does subtract greatly from the efficiency we have worked up in the first two-thirds of the steel making process. This is a chronic problem of Canadian industry, this problem of small runs to a size and roll changes—process changes. I think I have pursued that subject far enough.

Senator O'Leary (*Antigonish-Guysborough*): I have one more supplementary queston arising out of that. Do you feel that the working habits of the Canadian executive, shall we say, are not quite as good as those of his American counterpart? You don't think this is an important factor, do you? One witness which we had before us went into this in detail and thought it was a very important factor.

Dr. Farrell: Of necessity we must be more generalistic in the nature of our work. We must do a little of this and a little of that. Perhaps we have to sacrifice a little efficiency because of this. Have you any comments on this, Mr. Pollock?

Mr. Pollock: You put your finger on it. It is a question of aggressiveness in any one area. The greater the specialization the greater our agressiveness in that area by way of research, development and production. To this extent greater specialization can be carried on in the United States as compared with Canada.

Senator O'Leary (*Antigonish-Guysborough*): Does this specialization make an executive go to work at 7.30 in the morning instead of 9.30?

Mr. Pollock: You are talking about the executive going to work at 9?

Senator O'Leary (*Antigonish-Guysborough*): Yes. Questioning the working habits I wanted to get your opinion on this as a factor. You mentioned specialization.

Mr. POLLOCK: There is an opportunity to do the thing more intensely because of specialization in the larger market.

Dr. FARRELL: I doubt if there is much difference in the drive.

Co-Chairman Senator CROLL: Mr. O'Keefe.

Mr. O'KEEFE: On page 13 at paragraph 37 you say, "Profits, as suggested earlier, cannot be excessive over time in a truly competitive system." Do you think that this system under which we operate in Canada is a truly competitive system?

Dr. FARRELL: I doubt if you could name many Canadian industries that can rest on their laurels, that nobody is going to come in and compete with.

Co-Chairman Senator CROLL: I was going to come in on the same subject.

Mr. O'KEEFE: Just to finish that point, the suggestion is that profits can be excessive then?

Dr. FARRELL: Not for long, because competitors will come in and give you a hard ride and cut down your market size.

Mr. O'KEEFE: What do you consider "excessive"?

Dr. FARRELL: "Excessive" is enough to attract the next fellow in, I guess. It is somewhat above the level that is necessary to attract capital in.

Mr. O'KEEFE: That would be approximately what percentage?

Dr. FARRELL: Well, you are asking a question about where the corporate treasurers would say, "This is the line we draw. Below this prospective level of profit and net worth we will not invest." The profit on net worth after taxes is about 10 per cent, and you will not invest, if you cannot get a profit, below that.

Mr. O'KEEFE: You would suggest that anything over 10 per cent is excessive?

Dr. FARRELL: You cannot have it for long.

Mr. POLLOCK: No, I would not say that. It depends entirely on how fast moving the industry is; how much tooling is required to keep this industry competitive. This has a great deal to do with the amount of profit, in order for a business to keep itself in the place in the industry in which it is operating.

Mr. O'KEEFE: It is awfully hard to keep the word "excessive" in your mind when you cannot get any specific percentage.

Mr. POLLOCK: That market will take care of that.

Mr. O'KEEFE: Not always.

Mr. POLLOCK: Well, over a long period of time.

Mr. O'KEEFE: How long—over 100 years?

Mr. POLLOCK: It is moving too fast today.

Mr. O'KEEFE: Well, that is how long Canada has been going.

Mr. STYLE: I think it is very much dependent on the risk. If you were going into a high risk business you would want a higher profit margin.

Co-Chairman Mr. BASFORD: Before Mr. O'Keefe joined the committee we had Kellogg's here who for years and years have received a very high rate of return and as much as admitted it continued and it was still there, as reported in 1959 by the royal commission.

Mr. O'KEEFE: What rate was that?

Co-Chairman Mr. BASFORD: 22 per cent.

Co-Chairman Senator CROLL: 22 or 27 per cent.

Mr. O'KEEFE: I think Mr. Whitelaw said his philosophy was that you should have an income that can enhance the consumer's purchasing power. If you look down at your breakdown of manufacturers' sales dollar and notice that the wages and salaries in 1965 were only 19.7 per cent—

Co-Chairman Senator CROLL: Which one is this?

Mr. O'KEEFE: Page 34, Appendix II.

Co-Chairman Senator CROLL: Wages and salaries, 19.7 per cent—yes?

Mr. O'KEEFE: This is the extreme right-hand column under "Wages and salaries", 19.7 per cent. In 1958 they were 22 per cent. When you consider wages and salaries also include management salaries, directors' fees, payments to employees, etc.—in other words, there are more than the actual wages and salaries in there—I suggest the 30 per cent mentioned earlier in the brief could be added to the 19 per cent and still have only 25 per cent of the net sales or about 50 per cent of materials. I would like your comments on that, or someone's comments.

Co-Chairman Senator CROLL: I have a little trouble understanding what you say. Go a little slower, please.

Mr. O'KEEFE: Shall I go over it all again?

Co-Chairman Senator CROLL: Please—slowly.

Mr. O'KEEFE: In 1965 wages and salaries are listed here as 19.7 per cent—of the net sales, I assume.

Dr. FARRELL: Yes.

Mr. O'KEEFE: In 1958 they were 22 per cent?

Dr. FARRELL: Yes.

Mr. O'KEEFE: Which would suggest a considerable drop in wages and salaries, when you consider wages and salaries include all wages and salaries, including management salaries and directors' fees?

Dr. FARRELL: Yes, that is right.

Mr. O'KEEFE: I suggest you could add the 30 per cent mentioned and still have only 25 per cent of the net sales.

Co-Chairman Senator CROLL: What 30 per cent?

Mr. O'KEEFE: The 30 per cent mentioned as an exorbitant charge made by some labour organizations which were mentioned in the brief. That is the 30 per cent somebody talked about during the summer.

Dr. FARRELL: This is specific to the Seaway.

Co-Chairman Senator CROLL: Yes, that is the Seaway increase.

Mr. O'KEEFE: Yes, I am suggesting this seemingly exorbitant increase could be applied to your wages easily and yet not be exorbitant.

Mr. STYLE: I think you have to bear in mind that if there is a 30 per cent increase all around it is not only on these wage figures, but all the materials that come into this picture are going to be affected by the same wage increase in services, so you cannot attribute 30 per cent to that wage only.

Mr. O'KEEFE: How would the wage increase affect the cost of materials?

Mr. STYLE: In the same way.

Mr. POLLOCK: The companies supplying the raw materials would be affected in the same way.

Co-Chairman Senator CROLL: But you have a different item here for materials. The point that he is making is that the 30 per cent you have reference to

refers to wages and not to anything else, and if you had added that to the 19.7 per cent you would still be ahead.

Dr. FARRELL: Perhaps Mr. Bartha would like to add something.

Mr. Peter Bartha, Economic Research Director Canadian Manufacturers' Association: Sir, I think you ought not to compare these figures. First of all, you are absolutely right in looking at the 22 per cent and comparing it to the 19.7 per cent, but you should also look at the absolute figures. These figures are a breakdown of the sales dollar. Over the same period the actual dollar increases from $1.955 billion to $2.644 billion, which looks like $700 million, so it is about a 25 or 26 per cent increase, or something like that in absolute terms.

If you go down the table you will find under "Excise and sales taxes" in 1958 that took 3.5 per cent of the sale dollar. In 1965 it took 5.6 per cent of the sales dollar. So there is a very substantial increase in that cost component. I think if you consider the increase in absolute terms over the period, you might have a better idea than if you take the percentage distribution of the total in any particular year.

Finally, I want to mention that if you look at line 1, items 10 and 11, "Dividends" and "Retained in the business" and you add them, you will find that in 1958 they accounted for 4.6 per cent of the total, and in 1965, a very high level of economic activity, they accounted for 4.9 per cent of the total.

Mr. O'KEEFE: It still does not affect the fact you had less in wages percentagewise in 1965 than you did in 1958.

Mr. BARTHA: Less of the sales dollar, but far more in absolute terms. You paid far more in wages. You paid a smaller proportion of the sales dollar, because other expenditures have increased faster, such as indirect taxes have increased faster than wages.

Co-Chairman Senator CROLL: I have another question, and that is for you, Dr. Farrell, or anyone else who wants to answer. On page 13, the same as Mr. O'Keefe, I follow on with the rest of the paragraph and read it for background.

> Thus, a public policy which aims to encourage economic growth can assure that profits are adequate, and not more than that, by fostering competition through the economy. In some instances, regulations and laws may be beneficial to prevent undue concentrations of market power. In other situations, however, government intervention in the normal functioning of the market place only introduces rigidities and distortions which ultimately tend to reduce competition.

Let us talk about "concentrations of market power" for a moment. Tell me, what competition do you think there is in this country when 75 per cent of the grocery retail trade, and growing, belongs to five or six supermarkets, when 40 per cent or more of the food industry is controlled by one man, when 90 per cent of the detergent business is controlled by three organizations, and when 85 to 90 per cent of the baby food business is controlled by two organizations. Where is the competition?

Dr. FARRELL: Well, you have certainly given instances of extreme concentration. I think the question which follows is: Does the Canadian public feel by their having so few producers that there is a risk that prices will be held up on stilts when the producers are relieved of the competition of prices? I have not a ready answer for that.

Mr. HEMENS: May I say a few words on the subject generally, Mr. Chairman?

Co-Chairman Senator CROLL: Yes.

Mr. HEMENS: First of all let me do so in a rather different context. As you know, the Economic Council of Canada is undertaking a study of combines policy, and to some extent this impinges on the general field of combines or anti-trust. One of the things I am sure that the Economic Council is going to consider very seriously—and I hope I am not misquoting Dr. Deutsh—is what ought to be the purpose of a combines or anti-trust policy. Clearly, the purpose ought to be to forward the economy of Canada, and not to impose artificial restraints or *per se* laws or things of that nature for the sake of having *per se* laws.

This brings us into the field of what is undue concentration of market power. In the studies I have made to date—and I hope to make submissions in this area to the Council in due course—one of the real problems has been the number of people in Canada, or the number of customers in Canada, taken side by side with what is an economic unit of production.

Now, I appreciate that that does not apply particularly to the food industry. I do not know anything about the food industry—I just eat its products—but in other industries with which I am more familiar we run into the problem of small scale that has been already spoken of by Dr. Farrell. In many cases the unit of production which we have to use in Canada is not, in absolute terms, an economic unit of production. Consequently, if you have in a hypothetical industry, with possibly 20 million customers, six different companies each with an uneconomic unit of production you are achieving nothing but a lack of economic production. In a case such as that it may well be that two companies in Canada would not be an undue concentration of market power. In other words, what I think we have to look at is what is the best in the general interests of Canada having regard to the most economic use of the productive facilities we have available.

I am not sure that I have answered your question, but I have at least stated my views.

Co-Chairman Senator CROLL: You can be positive that you have not answered my question. As my own economic expert I am most unhappy about the question I have asked.

Co-Chairman Mr. BASFORD: This is a supplementary question. Do you consider that we have effective anti-merger regulations?

Mr. HEMENS: What do you mean by "effective anti-merger regulations"? What concerns me is not the question as to what are effective anti-merger regulations, but what ought to be the policy of Canada with respect to mergers or anti-mergers. Once we have determined that we can determine what are the right things to legislate in that respect.

Co-Chairman Mr. BASFORD: Why has it taken us 99 years to decide whether mergers are a good thing or a bad thing.

Co-Chairman Senator CROLL: We have not decided that yet.

Mr. HEMENS: No, we have not decided it, and to the extent that we have decided it—and I am expressing a personal view again—we have simply played copy cat with the United States of America, and in circumstances that are completely different from what they are there.

Co-Chairman Senator CROLL: Do you think we would be better off by playing copy cat with Great Britain in this respect?

Mr. HEMENS: No, I think it is high time we set up our own policies, and looked at our own interests.

Co-Chairman Senator CROLL: But if you have the United States on one side, and Great Britain on the other, what is in between?

Mr. HEMENS: I shall be glad to give you a discourse on that. I am going to tell that to the Economic Council. I do not think we need to follow either slavishly.

Co-Chairman Senator CROLL: I think it concerns us, and we are groping for a solution. Have you some ideas?

Mr. HEMENS: We are working on our representations, yes, sir.

Mr. ALLMAND: Mr. Hemens, the present combines legislation is based on the presumption that all monopolies and combines are bad, or that they affect unduly—

Mr. HEMENS: Yes.

Mr. ALLMAND: In Germany and Italy they take the position at certain times that large concentrations were good in certain instances because they gave a better deal to the consumer and to everybody. Are you suggesting that perhaps we should take a look at both of these policies, and draw up one that is suitable for Canada as a whole?

Mr. HEMENS: Almost precisely that is what I am suggesting.

Co-Chairman Senator CROLL: Senator Carter has a question.

Senator CARTER: I have two or three questions that were left over from before.

Co-Chairman Senator CROLL: Very well.

Mr. POLLOCK: Mr. Chairman, in that regard you referred to certain types of competition, and I think Mr. Style and I would like to draw your attention to the fact that there is some very severe competition in the television business, for instance. There are ten companies in Canada serving 20 million people, whereas in the United States there are about 20 companies serving 200 million people.

In the woodworking industry—I do not know the situation in the United States—there are over 2,000 companies. A thousand of them are very small and employing from one to two people, but there are many companies employing 25 or 30 employees in the woodworking industry. So, there is a tremendous amount of competition. Mr. Style could make the same statement with respect to the washing machine and refrigerator industry.

Co-Chairman Mr. BASFORD: If what you say about the woodworking industry is true then why is it that this committee has heard evidence to the effect that television sets cost $200 more in Canada than they do in California?

Mr. POLLOCK: The radio, television and hi-fi industry pays sales tax of 11 per cent, excise tax of 15 per cent, and there is a currency differential between the two countries of 7½ per cent. A colour T.V. set in Canada costs $1,000, but if those taxes were not imposed—and they are not imposed in the United States —there are no comparable taxes in the American figures—then that colour television set would sell for somewhere between $730 and $750, which would be comparable to an American price of $660 or $680.

Co-Chairman Senator CROLL: The Chairman of the committee has a singular mind, and he has directed it towards food products. The question was directed towards that. If we ever get to the point where we start to study the television business then I guarantee we will be listening to you.

Senator CARTER: I refer you to your Appendix II at page 34. Are the funds that are retained in the business, retained for the expansion of business? Is that the purpose of these funds?

Dr. FARRELL: Yes, they are for re-investment.

Senator CARTER: I notice that in 1956 you retained $300 million.

Dr. FARRELL: That would be the peak of the capital boom in 1956-57.

Senator CARTER: And ten years later, in 1965, you retained the same amount. Now, your sales have gone up from $8 billion to $13 billion. It would seem logical to me that if you are expanding your operations on that scale then it would be necessary to retain a proportional amount in the business for further expansion.

Dr. FARRELL: Part of what you say is correct, that the capital investment as a ratio of total income in Canada was lower in 1965 than it was in 1956, but it was to a far greater extent domestically financed. There was a great deal of imported capital in 1956—a great deal of investment from abroad—to make that possible. There was debt financing to go in there. Borrowing from abroad would go in there.

Senator CARTER: So that is not the true picture?

Dr. FARRELL: The point you raised is a very valid one, but I think of an explanation of debt financing from abroad as supplementing investments from retained earnings.

Senator CARTER: You are saying that competition is a good policemen so far as prices are concerned. On page 10, at paragraph 27, you say, "The very basis of the enterprise economy is competition." Then on page 24, at paragraph 75, you talk about freight prices going up, and you say:

> Thereafter the railways can be expected to adjust their rates along commercial principles.

Then you go on to say:

> ...it is anticipated that the highway carriers will raise their rail competitive rates to roughly similar levels.

Dr. FARRELL: That is what we said.

Senator CARTER: Is that not competition in reverse? How do you square these two sets of ideas?

Dr. FARRELL: Well, the end of any era brings adjustments problems, and when railways are given a new set of working rules and are told to function, well, without a lot of rates being frozen, then charges are going to go up, and after the transportation industry has adjusted to the new set of rules, I think they are going to be efficient and will contribute more to Canada.

Senator CARTER: But these railways are making a profit or they would not be in business. So if they raise the rates because the other carriers do they are just increasing their profit.

Dr. FARRELL: In the highway sector, yes, but then if they raise them so far—

Senator CARTER: But how do you square that with competition as the great factor in regulating prices and costs?

Dr. FARRELL: Is anyone from transportation here? I should like some comment.

Mr. WHITELAW: The transportation representative has just left.

Dr. FARRELL: I must plead a certain degree of ignorance in trying to answer something on transportation.

Co-Chairman Senator CROLL: That has nothing to do with it. Take the problem in its principal sense. What he is talking about is competition. You admit that the railway companies will have a new set of rules?

Dr. FARRELL: Yes.

Co-Chairman Senator CROLL: And you also admit that the transportation companies are now running along and making money.

Dr. FARRELL: The highway sector.

Co-Chairman Senator CROLL: What you say is that when the railways get a better deal the highways will immediately match them; and Senator Carter's point is that they are then taking an undue profit.

Dr. FARRELL: For the short run it may well be, until you—

Senator CARTER: Where will those costs be reflected, at the manufacturers level or the retail level?

Dr. FARRELL: Reflected perhaps more so at the retail level, but to some extent at the manufacturers level too.

Co-Chairman Mr. BASFORD: I want to ask this question. You talked about some of the labour settlements last year. We have had a number of very expensive work stoppages and at this very moment according to all reports, in my own province, there is a shutdown on account of a labour dispute or management-labour dispute. It is being fantastically costly to people involved and to the economy of the province. Have you any remedies on how these situations can be avoided?

Dr. FARRELL: I am not the best person to answer that, and I am looking for someone who can answer better.

Mr. WHITELAW: We have been endeavouring in our own modest fashion to impress upon labour the fact that the demands that are made are identified with the capacity of the economy to absorb these demands, to meet these demands, and that this responsibility on their part is of paramount importance. A settlement that is forced upon any segment of the economy, whether it is in the case of the western part of Canada, British Columbia, or any other segment of the country is of a kind that will react right across the land, and unless there is responsibility on the part of the people who are urging settlements in excess of what our productive capacity can meet, then we certainly are going to be continually confronted with labour unrest.

However, it is not only a question of the wage demands being related to our productive capacity, it is a question of an avoidance of labour unrest that was expressed in other forms, such as wildcat strikes, that we have been confronted with in such a rash in these past months—a question of disrespect for law and order on the part of some of our friends in the labour field. I underscore that word "some" because there is a very big body of responsible labour in this country headed by very responsible labour leaders. But we must also recognize the additional fact that the labour leaders, the responsible labour leaders, have difficulty in having the rank and file follow their directions and their guidance and their suggestions in these labour negotiations.

I think one other factor that has much to do with this question of labour unrest you mentioned, Mr. Basford, is this, that a fairly big percentage of our employees, people in the labour movement, are extremely youthful, they are aggressively militant, they have never known what it is to have to fight for a position in a given field of endeavour, they have been able to move from one job to another with the greatest of ease; the question of a depression or a recession has never been part of their upbringing. As a result, there is, I suggest, a lack of a feeling of responsibility on the part of the rank and file that is divorced from the realities of the market economy.

I think that all of these factors—there is no one factor but a combination of factors—has provided this current labour unrest situation that has obtained in the past, and I suggest probably currently obtains in British Columbia.

I say that in a spirit of concern, not a spirit of criticism but of real concern to the association.

Co-Chairman Mr. BASFORD: What is the view of the association on strikes and lockouts, without casting any aspersion, or work stoppages in essential industry?

Mr. WHITELAW: We have taken a position quite recently, I might say, Mr. Chairman, and this is speaking nationally, that in so far as public service employees are concerned as defined in Bill C-170, which would exclude crown corporations like Polymer, and the like, that in the best interests of the economy, the well being of the Canadian public, strikes should be precluded and that recourse should be had to other techniques of resolving these disputes. These techniques might well be conciliation, mediation and conceivably arbitration, but only in that field of public service found in Bill C-170.

There are some other provinces you are aware of. One that comes immediately to mind is the Province of Saskatchewan, where you do have an outlawing of strikes in public service and hospitals—that type of thing. In Ontario we do have an outlawing of strikes in the area of hospitals under certain specific conditions, but restricted to hospitals. Does that answer your question?

Co-Chairman Senator CROLL: It looks as if there might be a couple of supplementary questions.

Mr. ALLMAND: The suggestion you make would not include the major areas where there were strikes this year—dockworkers, railway workers and seaway workers?

Mr. WHITELAW: That is correct.

Mr. ALLMAND: You do not think there should be special provisions for compulsory arbitration if a strike is deemed against the public interest?

Mr. WHITELAW: In studying this admittedly complex question, our committee found it difficult to differentiate between essential, non-essential and key operations. For that and probably other reasons, it was decided to restrict our recommendation in the manner I have just spelled out.

Mr. ALLMAND: Right now, each time there is a crisis, we have to come to Parliament and pass a special law affecting that particular strike. Would the Canadian Manufacturers' Association prefer there should be a general law to allow the Government to decide that there was a strike against the public interest and giving them power by order in council to refer the matter to compulsory arbitration?

Mr. WHITELAW: Probably I can best answer that by saying it is the long term policy of the association that there should be a minimum of Government intervention in the field of labour-management relations. That being the case, we have up to the present at least decided that Government involvment of the fashion I have just mentioned should be restricted to public services.

Mrs. MACINNIS: Is it not true that any clamping down on labour will not deal with the underlying causes of labour unrest? Is it not true that a very big cause of labour unrest has been, first, that the unions have seen the great price rises which have affected them recently, that their cost of living has risen faster in the earlier period—I know that wages are catching up, but in the earlier period was not the increased cost of living a factor; and in the second place, is not labour anxious to have some determination of security for itself, now that automation is coming in? Is there not a responsibility on other shoulders also, as well as on labour, to make sure that these questions are settled, because these are vital for unions? Merely to clamp down and say: "This strike has to be prevented, and stopped"—is that merely keeping a festering sore rather than getting at it and dealing with the cause?

Mr. WHITELAW: Wages have not only kept abreast of the cost of living latterly, but they have exceeded the cost of living rise. To that extent I would

say that what may have been a condition in the more remote past is not a condition today, and I think you would admit that.

Mrs. MacInnis: No. On that point, I want to say that the recent Bureau of Statistics release pointed out that price increases during the period of the last five years have robbed the unions, the organized workers, of one-half of what they had won by strikes. This is a release which came out the other day and I have it here.

Mr. Whitelaw: This may not be entirely relevant, but I think it has a definite bearing on the point at issue. In the most recent issue of "Time", if I may direct your attention to the part given to Canada, on the first page of the Canadian section there is a very interesting chart which shows a very substantial rise in wages and salaries in manufacturing, with a relatively modest rise in consumer prices, and the one exceeds the other. And this has to do with the first, second, third and fourth quarters of 1965 and the first and second quarters of 1966. Therefore, I think there is a situation today where wages have risen much more rapidly than consumer prices.

Mrs. MacInnis: It is true that wages are now catching up to productivity—

Mr. Whitelaw: They are in excess. They are not only catching up but they are in excess.

Mrs. MacInnis: We can hear about that when we are dealing with it later, from our counsel, as to the accuracy of that. The point I want to make is that this is not just something that happened in the last quarter of 1966. We have a period of 18 months with a very substantial rise in prices and in the cost of living and food prices.

When one is talking about machinery for outlawing strikes and that type of thing, I want to ask you if you do not believe that such a thing would be self-defeating, that on the part of organized labour you have a feeling that the cost of living was the reason for these strikes; and now, the other thing that is at the root, the fact that they need to get some kind of security for automation which is coming in, which is now, as you said in your brief, the greatest single cause of difficulty right now. Could you not outline other measures as well as possible Government orders which would clamp down, which we are discussing now?

Mr. Whitelaw: I would just touch on the first point and then come quickly to the second. On the first point, reference to authoritative statistics will make it abundantly clear that over the period 1956 to 1965, the question of wage rises contrasted with the cost of living index figure—reference to those figures will show that wages have risen more rapidly than cost of living figures. That is an accurate statement, not merely a personal statement.

Secondly, in so far as the question of security of employment is concerned on the part of our employees in the manufacturing industry, I would suggest, Mrs. MacInnis, that there is no area of greater concern to the manufacturing industry than that of being able to look after the security of our employees.

Technological developments—automation, if you want to call it in that particular fashion—are being introduced on an ever-increasing scale; but as they are being introduced, management is giving great concern to the impact of this development on the well-being and the welfare and on the security of these employees. There is a great deal of thought, of study and of concern going into the impact of these improvements in our capacity to produce. The discussion is taking place at the individual plant level and at the industry level. Many conferences are held under the aegis of the Canadian Manufacturers' Association and other organizations, all directed toward the objectives of lessening the adverse impact of these improvements on the security of the employee.

Mrs. MacInnis: Has not this been a cause of strikes? As a matter of fact, I know it was. We had one bad lengthy industrywide strike in my own province of British Columbia, the case of workers in the oil and other industries. These things cannot be obviated merely by passing Government decrees that all strikes shall be outlawed. Is there any possibility in Canada of our moving a little more forward?

Again I quote Sweden because we had Professor Kragh and other people. In Sweden, at the beginning of the year, the manufacturers' association sits down with the collective union bargaining association, for a collective session on bargaining agreements, industrywide, which will do for that year, and then strikes are out after that.

Mr. Whitelaw: May I make this comment, Mrs. MacInnis. Sweden is a unitary state. Here in Canada we have eleven governments. Labour relations and labour legislation is primarily the prerogative of the provinces. Primarily. We know that there is a big segment of employees that fall under the umbrella of the federal Government, but basically and fundamentally, with that exception, labour legislation is the jurisdiction of the provinces.

To that extent, it seems to us as an association that industry bargaining is not too viable a way of handling labour-management relations.

Mrs. MacInnis: Could it become so?

Mr. Whitelaw: I question. I question. We are prepared to look at anything from a constructive viewpoint but I question this.

Co-Chairman Mr. Basford: I would like to ask Dr. Farrell particularly, because he has been with the Steel Company of Canada, which has had something to do with this question, whether he would favour the establishment of a prices review board.

Mr. Whitelaw: I think it is a mistaken idea of what is right. Believe me, competition will straighten you out if you are wrong on price increases. The plunge that we have had in steel operating rates has made us wonder about the appropriate level of steel prices. But that came as a shock. When that particular kind of power was directed against us, because it is an overwhelming power, it is an unequal fight, if you are told to roll back, with all of the administrative rulings and so on that are within the Government system. I think that was a rather sad experience.

Mr. Chairman, I would just like to read into the record one statement that would probably help clarify some of my comments in answer to questions from Mrs. MacInnis.

With your permission:

> 1956 to 1965, 58 per cent wage salary increase in manufacturing; 23 per cent consumer price index increase.

This will give you the statistical figures.

Co-Chairman Senator Croll: With respect to that particular industry?

Mr. Whitelaw: No, this is manufacturing generally.

Co-Chairman Senator Croll: You appreciate now that we have kept you here till 6.20 so that we can get overtime.

Mr. Whitelaw: Do we get overtime too?

Co-Chairman Senator Croll: No, you do not. We do.

You started out by reading your brief. Let me say on behalf of the Committee that it was a very valuable contribution. It is a delight for us to have the men who give good leadership to the industry and our country and to see them and to hear them. It is always profitable. We thank you.

Mr. Charles Perrault, member, executive council, Canadian Manufacturers' Association: Messrs. Chairmen, ladies and gentlemen, may I, on behalf of my colleagues from the C.M.A. thank you for your hearing of our brief. Your courtesy and interest have been much appreciated, and this interest was clearly demonstrated by the large number of questions directed to our delegation. Please be assured in turn of our interest in your important inquiry, and of the cooperation of our members and staff if it should be needed at any time.

Messieurs les présidents, mesdames, messieurs.

Permettez-moi, au nom de mes collègues de l'Association des manufacturiers canadiens, de vous remercier pour votre audition de notre mémoire. Nous avons apprécié la courtoisie et l'intérêt que vous nous avez témoignés ainsi qu'en fait foi le grand nombre de questions adressées à notre délégation. Soyez assurés à votre tour de notre intérêt en votre travail, et de la collaboration de nos membres et de notre permanence si vous en avez besoin.

The Committee adjourned.

APPENDIX Ia

INDEXES OF PRODUCTIVITY, LABOUR COST AND PROFITS IN MANUFACTURING

(1956=100)

					Per Unit of Output		Per Man-Hour	
	Output	Man-hours	Labour Cost	Profits	Labour Cost	Profits	Labour Cost	Output
1955...	91.5	95.4	90.4	92.0	98.8	100.5	94.8	95.9
1956...	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1957...	99.8	99.2	105.5	89.2	105.7	89.4	106.4	100.6
1958...	97.9	94.3	105.2	85.1	107.5	86.9	111.6	103.8
1959...	105.2	96.0	111.1	100.7	105.6	95.7	115.7	109.6
1960...	106.6	94.0	114.4	92.3	107.3	86.6	121.7	113.4
1961...	110.4	93.2	115.7	94.5	104.8	85.6	124.1	118.5
1962...	119.8	97.4	124.3	110.3	103.8	92.1	127.6	123.0
1963...	128.2	100.4	131.8	124.2	102.8	96.9	131.3	127.7
1964...	140.1	105.7	143.5	135.1	102.4	96.4	135.8	132.5
1965...	152.2	109.3	158.4	144.0	104.1	94.6	144.9	139.2

Source; DBS Index of Industrial Production, Labour Income, Corporation Profits and Daily Bulletin, June 7, 1966.

APPENDIX Ib

CHANGES IN PRODUCTIVITY, LABOUR COST AND PROFITS IN MANUFACTURING

(Percentages)

					Per Unit of Output		Per Man-Hour	
	Output	Man-hours	Labour Cost	Profits	Labour Cost	Profits	Labour Cost	Output
1955/56.....	9.3	4.8	10.6	8.7	1.2	— 0.5	5.4	4.3
1956/57.....	— 0.2	— 0.8	5.5	—10.8	5.7	—10.6	6.4	0.6
1957/58.....	— 1.9	— 4.9	— 0.3	— 4.6	1.7	— 2.8	4.9	3.2
1958/59.....	7.5	1.8	5.6	18.3	— 1.8	10.1	3.7	5.6
1959/60.....	1.3	— 2.1	3.0	— 8.3	1.6	— 9.5	5.2	3.5
1960/61.....	3.6	— 0.9	1.1	2.4	— 2.3	— 1.2	2.0	4.5
1961/62.....	8.5	4.5	7.4	16.7	— 1.0	7.6	2.8	3.8
1962/63.....	7.0	3.1	6.0	12.6	— 1.0	5.2	2.9	3.8
1963/64.....	9.3	5.3	8.9	8.8	— 0.4	— 0.5	3.4	3.7
1964/65.....	8.6	3.4	10.4	6.6	1.7	— 1.9	6.7	4.9

APPENDIX IIα

BREAKDOWN OF THE MANUFACTURERS' SALES DOLLAR

RESULTS OF THE CANADIAN MANUFACTURERS' ASSOCIATION ANNUAL SURVEY FOR THE 10 YEARS 1956–1965

	1956		1957		1958		1959		1960	
	Thousands of $	%	Thousands of $	%	Thousands of $	%	Thousands of $	%	Thousands of $	%
1. Net Sales	$ 8,343,109	99.1	8,814,226	99.0	8,827,807	99.2	9,420,802	98.8	9,746,107	98.7
2. Other Income	74,387	.9	85,168	1.0	75,054	.8	112,699	1.2	130,638	1.3
Total	$ 8,417,496	100.0	8,899,394	100.0	8,902,861	100.0	9,533,501	100.0	9,876,745	100.0
3. Wages and Salaries	$ 1,706,015	20.3	1,847,006	20.8	1,955,046	22.0	2,091,598	21.9	2,128,821	21.5
4. Employee Benefits	126,554	1.5	139,816	1.6	145,883	1.6	159,710	1.7	172,130	1.7
5. Materials	4,121,833	49.0	4,366,420	49.1	4,134,972	46.5	4,408,219	46.2	4,400,435	44.5
6. Excise and Sales Taxes	344,742	4.1	322,244	3.6	315,100	3.5	369,253	3.9	414,197	4.7
7. Other Expenses	985,128	11.7	1,131,178	12.7	1,263,582	14.2	1,279,783	13.4	1,505,112	15.2
8. Depreciation	273,371	3.2	297,021	3.3	359,543	4.0	341,632	3.6	411,750	4.1
9. Taxes on Income	372,068	4.4	328,888	3.7	317,470	3.6	397,991	4.2	385,531	3.9
10. Dividends	187,338	2.2	203,694	2.3	233,577	2.6	234,391	2.5	263,711	2.5
11. Retained in the Business	300,447	3.6	263,127	2.9	177,688	2.0	250,924	2.6	195,058	1.9
Total	$ 8,417,496	100.0	8,899,394	100.0	8,902,861	100.0	9,533,501	100.0	9,876,745	100.0
12. Number of Employees	436,981 persons		441,034 persons		485,830 persons		462,935 persons		469,390 persons	
13. Number of Shareholders	572,940 persons		417,077 persons		601,174 persons		762,802 persons		543,109 persons	
14. Total Investments	$ 5,726,682		—		—		—		—	
Note: Item 14 was changed in 1957 to read:										
14. Total Net Worth	—		$ 5,048,052		5,596,709		5,585,159		6,279,333	
Profit as a Percentage of Net Worth	—		9.25%		7.3%		8.7%		7.3%	
Companies Co-Operating	1,023		1,069		1,019		1,043		1,006	
Companies Reporting Loss	104		139		175		155		201	

APPENDIX IIα (*concluded*)

BREAKDOWN OF THE MANUFACTURERS' SALES DOLLAR

RESULTS OF THE CANADIAN MANUFACTURERS' ASSOCIATION ANNUAL SURVEY FOR THE 10 YEARS 1956–1965

	1961		1962		1963		1964		1965	
	Thousands of $	%	Thousands of $	%	Thousands of $	%	Thousands of $	%	Thousands of $	%
1. Net Sales	$ 10,314,639	98.9	10,742,379	98.9	11,815,798	98.9	13,658,495	98.9	13,309,305	99.1
2. Other Income	114,992	1.1	116,255	1.1	121,696	1.1	147,988	1.1	115,281	.9
Total	$ 10,429,631	100.0	10,858,634	100.0	11,937,494	100.0	13,806,483	100.0	13,424,586	100.0
3. Wages and Salaries	$ 2,254,932	21.6	2,291,044	21.1	2,483,522	20.8	2,727,333	20.8	2,644,107	19.7
4. Employee Benefits	187,162	1.8	190,959	1.8	198,019	1.6	231,023	1.7	237,674	1.8
5. Materials	4,620,331	44.3	4,810,925	44.3	5,270,554	44.2	6,236,281	45.2	6,303,489	47.0
6. Excise and Sales Taxes	402,927	3.8	471,194	4.3	566,723	4.7	695,515	5.0	756,643	5.6
7. Other Expenses	1,595,989	15.3	1,655,680	15.3	1,822,176	15.3	2,105,389	15.1	1,889,493	14.1
8. Depreciation	444,579	4.3	424,677	3.9	457,633	3.8	525,702	3.8	424,250	3.1
9. Taxes on Income	413,179	4.0	455,835	4.2	501,083	4.2	549,021	4.0	511,693	3.8
10. Dividends	284,434	2.7	287,192	2.6	305,794	2.6	342,107	2.5	345,039	2.6
11. Retained in the Business	226,098	2.2	271,128	2.5	331,990	2.8	394,112	2.9	312,198	2.3
Total	$ 10,429,631	100.0	10,858,634	100.0	11,937,494	100.0	13,806,483	100.0	13,424,586	100.0
12. Number of Employees	489,082 persons		478,661 persons		501,545 persons		524,932 persons		477,151 persons	
13. Number of Shareholders	728,411 persons		729,338 persons		683,927 persons		757,595 persons		642,191 persons	
14. Total Investments	—		—		—		—		—	
Note: Item 14 was changed in 1957 to read:										
14. Total Net Worth	6,722,607		6,341,619		6,765,780		7,700,246		6,555,779	
Profit as a Percentage of Net Worth	7.6%		8.8%		9.4%		9.6%		10%	
Companies Co-Operating	1,011		988		946		935		909	
Companies Reporting Loss	212		158		107		108		108	

APPENDIX IIb

INTERPRETATION OF HEADINGS NOS. 1-14

1. *Net Sales* (that is, gross sales, less returns and allowances.)
2. *Other Income.*
3. *Wages and Salaries* (all wages and salaries including management salaries, directors' fees, payments to employees for holidays and in connection with profit sharing or production incentive plans, unless such payments are distributed only upon retirement of employee or some similar basis, in which case they are to be included in 4.)
4. *Employee Benefits* (payments to pension plans, group life, sickness or hospitalization insurance, workmen's compensation, unemployment insurance, medical services, cafeterias, welfare funds, 25-year clubs, etc.)
5. *Materials* (including raw materials, finished and semi-finished parts, materials purchased for resale, materials consumed in processing or assembly operations, and packaging and shipping materials; but not including shop and factory supplies to be included in 7.)
6. *Excise & Sales Taxes* (included in 1 above, remitted or to be remitted to Dominion and other Governments.)
7. *Other Expenses* (including shop and factory supplies, power, water, municipal taxes, maintenance, repairs to buildings, machinery and equipment (not including salaries and wages or employee benefits included in 4 above), office, administrative and selling expenses not included above, including charitable donations and interest expense.)
8. *Depreciation.*
9. *Taxes on Income* (Dominion and Provincial taxes on income.)
10. *Dividends* (dividends declared on preference and common shares.)
11. *Retained in the Business* (that amount of the year's income not paid out in dividends.)
12. *Number of Employees* (average over 12 month period of fiscal year.)
13. *Number of Shareholders* (average over 12 month period of fiscal year.)
14. *Total Investments* (total assets less actual liabilities other than funded or long-term indebtedness.)

Note: Item 14 was changed in 1957 to read:

14. *Total Net Worth* (capital stock—preferred, common, etc.—and total retained earnings—surplus and reserves.)

First Session—Twenty-seventh Parliament

1966

PROCEEDINGS OF THE SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON

CONSUMER CREDIT

(PRICES)

No. 25

THURSDAY, DECEMBER 8, 1966

LIBRARY
UNIVERSITY OF TORONTO

JOINT CHAIRMEN

The Honourable Senator David A. Croll

and

Mr. Ron Basford, M.P.

WITNESSES:

The Canadian Labour Congress: Mr. William Dodge, Executive Vice-President; Mr. Russell Irvine, Director of Research; Mr. John Fryer, Assistant Director of Research. *Food and Drug Directorate, Dept. of National Health & Welfare:* Dr. R. A. Chapman, Director General; Mr. A. Hollett, Director, Bureau of Operations; Miss E. M. Ordway, Chief, Consumer Division.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
Ottawa, 1966

25340—1

MEMBERS OF THE SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON CONSUMER CREDIT

(PRICES)

For the Senate

Hon. David A. Croll, Joint Chairman

the Honourable Senators

Carter,
Cook,
Croll,
Hastings,
Hollett,
Inman,
McDonald (*Moosomin*),
McGrand,
O'Leary (*Antigonish-Guysborough*),
Thorvaldson,
Urquhart,
Vaillancourt—(12).

For the House of Commons

Mr. Ron Basford, Joint Chairman

Members of the House of Commons

Allmand,
Andras,
Basford,
Cashin,
Choquette,
Clancy,
Code,
Crossman,
Duquet,
Horner (*Acadia*),
Irvine,
Leblanc (*Laurier*),
Lefebvre,
MacInnis,
Mandziuk,
McCutcheon,
McLelland,
O'Keefe,
Olson,
Otto,
Ryan,
Scott (*Danforth*),
Smith,
Whelan—(24).

36 members

Quorum 7

SUPPLEMENTARY ORDERS OF REFERENCE

Extract from the Votes and Proceedings of the House of Commons, September 9, 1966:—

"Mr. Sharp, seconded by Miss LaMarsh, moved,—That the Joint Committee of the Senate and House of Commons appointed by this House on March 15, 1966, to enquire into and report upon the problems of consumer credit, be instructed to also enquire into and report upon the trends in the cost of living in Canada and factors which may have contributed to changes in the cost of living in Canada in recent months;

And that a Message be sent to the Senate to acquaint Their Honours thereof and to request the concurrence of that House thereto.

And the question being proposed;

Mr. Pickersgill, seconded by Mr. McIlraith, moved in amendment thereto,—That the motion be amended by striking out the words "by this House on March 15, 1966" where they appear in the second line thereof and by inserting in the motion as the second paragraph the following:

"That the Committee have leave to sit notwithstanding any adjournment of this House;"

And the question being put on the said amendment, it was agreed to.

After debate on the main motion as amended, it was agreed to."

Extract from the Votes and Proceedings of the House of Commons, October 7, 1966:—

By unanimous consent, Mr. Basford, seconded by Mr. Allmand, moved,—That the First and Second Reports of the Special Joint Committee on Consumer Credit and Cost of Living, presented to the House on Friday, April 1 and Thursday, October 6, 1966, be concurred in.

After debate thereon, the question being put on the said motion, it was agreed to.

Accordingly, the said Reports were concurred in and are as follows:

FIRST REPORT

Your Committee recommends that seven (7) of its Members constitute a quorum, prôvided that both Houses are represented.

SECOND REPORT

Your Committee recommends that the House of Commons section of the said Committee be granted leave to sit while the House is sitting.

LÉON-J. RAYMOND,
Clerk of the House of Commons.

25340—1½

Extract from the Minutes of the Proceedings of the Senate, September 13, 1966:—

"The Honourable Senator Connolly, P.C., moved, seconded by the Honourable Senator Hugessen:

That the Senate do agree that the Joint Committee of the Senate and House of Commons appointed to enquire into and report upon the problems of consumer credit, be instructed also to enquire into and report upon the trends in the cost of living in Canada and factors which may have contributed to changes in the cost of living in Canada in recent months; and

That a message be sent to the House of Commons to acquaint that House accordingly.

After debate, and—

The question being put on the motion, it was—

Resolved in the affirmative."

Extract from the Minutes of the Proceedings of the Senate, Tuesday, November 22, 1966:—

The Honourable Senator Connolly, P.C., moved, seconded by the Honourable Senator Beaubien (*Provencher*):

That the Third Annual Review of the Economic Council of Canada relating to Prices, Productivity and Employment, dated November 1966, which was tabled in the Senate today, be referred to the Special Joint Committee of the Senate and House of Commons on Consumer Credit and Cost of Living.

The question being put on the motion, it was—

Resolved in the affirmative.

J. F. MacNeill,
Clerk of the Senate.

MINUTES OF PROCEEDINGS

Thursday, December 8, 1966.

Pursuant to adjournment and notice the Special Joint Committee on Consumer Credit (Prices) met this day at 9.30 a.m.

Present: *For the Senate*: The Hon. Senators Carter, Croll (*Joint Chairman*), McGrand and O'Leary (*Antigonish-Guysborough*).—4.

For the House of Commons: Messrs. Allmand, Basford (*Joint Chairman*), Lefebvre, MacInnis, Mandziuk, McCutcheon, McLelland, O'Keefe, Scott (*Danforth*) and Whelan.—10.

In attendance: Dr. R. Warren James, Special Assistant; Mr. John J. Urie, Q.C., Counsel; Mr. Marcel Joyal, Q.C., Associate Counsel; Mr. Jacques L'Heureux, C.A., Accountant.

On motion of Mr. O'Keefe, seconded by the Hon. Senator O'Leary, supplementary information submitted by The Great Atlantic & Pacific Tea Co, Dominion Stores Ltd., Atlantic Wholesalers Ltd., H. J. Heinz Co. of Canada Ltd., Burns Foods Ltd., and Loblaw Groceterias Co., Ltd., was ordered to be printed as Appendix No. 11 to these proceedings.

The following were heard:

The Canadian Labour Congress:

Mr. William Dodge, Executive Vice-President.

Mr. Russell Irvine, Director of Research.

Mr. John Fryer, Assistant Director of Research.

At 1.00 p.m. the Committee adjourned.

At 3.00 p.m. the Committee resumed.

Present: *For the Senate*: The Hon. Senators Carter, Croll (*Joint Chairman*), McGrand and O'Leary (*Antigonish-Guysborough*).—4.

For the House of Commons: Messrs. Allmand, Basford (*Joint Chairman*), MacInnis, Mandziuk, McCutcheon, McLelland, O'Keefe and Scott (*Danforth*).—8.

In attendance: Dr. R. Warren James, Special Assistant.

The following were heard:

Food & Drug Directorate, Department of National Health & Welfare:

Dr. R. A. Chapman, Director General.

Mr. A. Hollett, Director, Bureau of Operations.

Miss E. M. Ordway, Chief, Consumer Division.

At 5.15 p.m. the Committee adjourned until Tuesday next, December 13, at 9.30 a.m.

Attest.

John A. Hinds,
Assistant Chief,
Senate Committees Branch.

THE SENATE

SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON CONSUMER CREDIT

EVIDENCE

OTTAWA, Thursday, December 8, 1966.

The Special Joint Committee of the Senate and House of Commons on Consumer Credit met this day at 9.30 a.m.

Senator David A. Croll and Mr. Ron Basford, M.P., Co-Chairmen.

Co-Chairman Mr. BASFORD: The committee will please come to order. Before calling on our witnesses this morning I would like to inform the committee that supplementary information provided by the following companies has been compiled and is now ready for inclusion in the proceedings: the Great Atlantic and Pacific Tea Company Limited, Dominion Stores Limited, Toronto, Atlantic Wholesalers Limited, H. J. Heinz Company of Canada Limited, Burns Foods Limited, Calgary, and Loblaw Groceterias Company Limited. May I have a motion to print this supplementary information as an appendix to today's proceedings?

Senator O'LEARY *(Antigonish-Guysborough)*: Is all the information satisfactory as requested?

Co-Chairman Mr. BASFORD: Yes.

Mr. O'KEEFE: I so move.

Senator O'LEARY (*Antigonish-Guysborough*): Seconded.

Co-Chairman Mr. BASFORD: Moved by Mr. O'Keefe and seconded by Senator O'Leary. Anybody dissenting? Motion carried.

Mr. SCOTT (*Danforth*): My attention has been drawn to the current issue of the *Financial Post* and to the fantastic holdings of the Weston organization. I was wondering if as a result of this the chair had decided to call them before the committee. It is incredible the amount of interlocking of holdings that exists in this case, and it would be most interesting to hear from them.

Co-Chairman Mr. BASFORD: The information supplied is as a result of a request I made to them when they were here. You will recall at that time I asked them at the end of the proceedings if they would give us a chart showing their holdings both up and down the scale. That has now been provided and it will be up to the steering committee to take any further action that they deem to be appropriate.

Mr. SCOTT *(Danforth)*: It would be most interesting to get them here.

Co-Chairman Mr. BASFORD: I have expressed my own personal views, and any further action is up to the steering committee.

Our witnesses this morning are from the Canadian Labour Congress. We have representing the Congress Mr. William Dodge, executive Vice-President, who, I understand, will present the brief. We also have Mr. Russell Irvine, Director of Research and his assistant, Mr. John Fryer. I think we all know of Mr. Dodge and we are familiar with the work of the Canadian Labour Congress, so without further introduction I will call upon Mr. Dodge to present their brief.

Mr. William Dodge, Executive Vice-President, Canadian Labour Congress: Thank you, Mr. Chairman. I am suffering from a slight cold this morning. I hope I can read the entire brief without losing my voice. However, if this should happen, you will understand why I am transferring the reading to Mr. Irvine.

We welcome this opportunity to appear before you and to present our views on the issues surrounding cost and price movements in Canada. The public debate on these matters has not always been carried on at a desirable level. This committee has provided a forum for more intensive examination of the problems involved and we look forward to your report.

The inflation question affects trade union members in a variety of ways. When prices are rising rapidly they, like other citizens, feel the effects of a decline in their real standard of living. They do not suffer the same degree of disadvantage as certain fixed-income groups like widows and pensioners. However, they are bound by contracts ranging in duration from one year to five years and normally must wait until these contracts have expired before they can negotiate wage increases. During periods of rapidly rising prices this means that many trade union members will suffer a decline in real income. Organized labour is therefore acutely aware of the adverse effects of large, pervasive, and prolonged increases in consumer prices.

At the same time, however, labour can be hurt by irresponsible hysteria about inflation. We feel that many observers have greatly exaggerated the seriousness of price movements in Canada and have exerted pressure on government to take steps which we feel would be unwise. If government is pressured into taking major restraining action on the economy—particularly in the form of large cutbacks in government spending—at a time when either no serious inflationary threat exists or at a time when the peak of the crisis has passed, the result could well be to damage the growth potential of our economy and to create a high unemployment situation. Labour is anxious to prevent such a development. We are therefore disturbed when we observe that charges of "runaway inflation" have been freely tossed about during the last two years.

We are further concerned when panic about inflation leads to demands for some system of wage controls. For reasons which will be developed in this brief, we do not think that current conditions in any way necessitate or justify such measures. Collective bargaining has not, in any general sense, contributed to instability in Canada's cost and price levels. Indeed, Canada has experienced remarkable stability in her pattern of labour costs when compared to other industrial countries with which we compete.

We find that there is a great deal of loose and uninformed talk about wage inflation. One of the crudest but not least common errors is the belief that increases in wages are bound to exert proportionate upward pressure on costs and prices. This of course is only true if there has been no increase in productivity. In order to assess the impact that any given wage increase will have on costs, changes in productivity must be taken into account. The relevant variable then becomes the labour cost per unit of output. Only by examining productivity and measuring changes in labour cost per unit of output can we arrive at a meaningful assessment of the wage impact on cost levels. If productivity rises sufficiently it is possible for wages to rise very substantially without resulting in any increase whatever in the labour cost per unit of output; indeed, if productivity rises faster than payments to labour, labour cost per unit of output will decline.

Actual data on labour cost per unit of output are very scarce in Canada and are difficult to produce because of the immense problems involved in measuring productivity. So far as measurement is possible, however, it can be seen that labour costs in Canada have been highly stable. In some years wages have grown less rapidly than productivity with the result that labour costs per unit of output

have fallen; in other years the reverse has been true; but over the long run productivity and payments to labour have risen at roughly the same pace, with only a very slight upward trend in labour costs per unit of output.

Last September, the United States Bureau of Labor Statistics produced a study[1] of unit labour cost trends in manufacturing in nine industrial countries, including Canada. The study covered the period 1957 to the end of 1964. It showed that Canada had enjoyed the most stable labour costs of any industrial country. Over that entire seven-year period, unit labour costs in Canadian manufacturing rose by a total of only 3 per cent. This was less than the increase in any other industrial country.

Over the same period, United States labour costs per unit of output rose by 5 per cent. Other countries experienced the following increases: Japan, 11 per cent; Sweden, 16 per cent; the United Kingdom, 16 per cent; Italy, 17 per cent; Germany, 23 per cent, the Netherlands, 26 per cent; and France, 42 per cent.

Some of these figures have now been updated to include 1965, according to a recent press release by the Bureau of Labor Statistics. The release concludes from the new study that "Unit labor cost in the U.S. has been virtually unchanged since 1957, while it has risen by 18 to 39 per cent in seven other major industrial countries. Only Canada (with a total increase of 5 per cent) matches the U.S. record in labour cost stability."

These findings are of great significance for the debate on labour costs as a factor in inflation. The charge has been made many times that rising wages are pricing Canada out of international markets, that other countries whose wage levels are allegedly rising more slowly are acquiring a growing competitive advantage over Canada.

This is clearly not the case. So far as labour costs are concerned, Canada has been making competitive gains of major proportions over all industrial countries except the United States and even in the latter case Canada has been holding her own. The Economic Council of Canada also brought attention to these facts in the *Second Annual Review*.

It should also be noted that when the data are revised to take into account the devalution of the exchange rate on the Canadian dollar—which is highly relevant when making international comparisons—Canadian unit labour costs actually dropped by 6 per cent between 1957 and 1965.

It is revealed in the study that Canadian unit labour costs rose slightly in 1965, whereas they had dropped in 1961 and 1962 and had remained steady in 1964. But the increase in 1965 was not large and did not undermine that pattern of stability which had prevailed since 1957. As the Economic Council pointed out in the *Second Annual Review*, when commenting on wage movements in 1965, "On the whole wage increases do not appear, at least at this stage, to have been substantially outrunning the growth of productivity . . ." and ". . . despite some particular exceptions, cost-push forces do not seem to be strong or seriously distorting in any general sense." [2]

A few comments should be made at this point about the relative movement of profits and wages over the course of a business expansion. In the early stages of an expansion income shares tend to swing toward profits and this is reflected in a substantial rise in profits per unit of output. As the expansion reaches its later stages, income shares tend to swing toward labour and this is reflected in rising labour costs per unit of output. As W. A. Beckett pointed out in the September 1966 issue of *Monthly Business Review*, "Shares tend to balance out over the full cycle and remain relatively constant over time. Rising profit

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[1] J. H. Chandler and P. C. Jackman, "Cost Trends in Nine Industrial Nations," *Monthly Labor Review*, September 1965, U. S. Department of Labor, Bureau of Labor Statistics, Washington, D.C.

[2] Economic Council of Canada, *Second Annual Review*, December 1965, Ottawa, p. 38.

margins do not wreck the economy at the start of a recovery and a rising share for labour at the expense of profits does not wreck it at the end of an expansion. Rising unit labour costs are not the signal of the beginning of an inflationary spiral. Rather, they are characteristic of the final stages of an inflation." We think this last statement is particularly significant and should be borne in mind by the policy-makers.

It is interesting to note how the most recent Canadian expansion, from 1962 to 1966, has followed this traditional pattern. In 1962, according to the Budget White Paper, wages and salary costs per unit of manufacturing output declined slightly while corporation profits per unit of manufacturing output rose nearly 7 per cent. In 1963, wage and salary costs per unit of output rose just a little over ½ of 1 per cent, while profits per unit rose by a full 4 per cent or about 6½ times as much as labour costs. Then, as the expansion proceeded, and as the profit situation became apparent to organized labour, the picture began to change. In 1964 each component rose by about ½ of 1 per cent and in 1965 the labour component rose 2.3 per cent while profits per unit dropped slightly by 0.3 per cent.

Per Cent Change in Labour Costs and Profits
Per unit of Manufacturing Output

	1962	1963	1964	1965
Wages and Salaries per Unit of Output	—0.3	0.6	0.6	2.3
Corporation Profits per Unit of Output	6.9	4.0	0.4	—0.3

Source: Budget White Paper, 1966.

What has been happening in the past two years is the evening out of income shares between profits and labour income. This early "peaking" of profits and late "peaking" of wages has given the general impression that wage demands in the last two years have been unreasonable when, in fact, to use Beckett's phrase, "the current situation is the natural compensating pattern of the usual business cycle."

While we do not have sufficiently complete data to make labour cost estimates for 1966, many people may have been impressed by certain unusually large wage gains during this year. It is true that this has been an exceptional year for workers in certain unions and certain industries. It is also likely, we think, that there will be some increase in overall unit labour costs this year. But it is entirely misleading to base one's estimates on the much-publicized large wage gains that have occurred this year.

In the first place these gains have not been pervasive throughout the labour force. They have not been typical settlements. A relatively small proportion of Canadian workers have received the twenty and thirty per cent increases. Indeed, gains of this magnitude have not even been typical of the unionized part of the labour force which itself represents only about 30 per cent of the paid non-agricultural workers.

Secondly, most of the larger increases were not granted in a single year but were spread out in instalments over a two or three-year contract. This spreading out took the edge off any inflationary effects that the increases otherwise would have.

Our earlier discussion made the point that, despite fluctuations in particular years, wage and salary increases over the long run have been roughly matched by productivity gains. We have heard the argument raised that it is "unjust" for labour to receive increases equal to the increase in productivity because this, it is alleged, means that whereas labour is only partly responsible for increases in productivity they will receive the full fruits of such increases. This is a fallacy. To increase wages by the same percentage as the productivity increase does not mean that labour receives the full fruits of higher productivity. The Economic Council, in the *Third Annual Review* (p. 155) uses an example:

Let us suppose that at the starting point 20,000 units of product are being made and sold at one dollar each, and that the proceeds are being divided between wages and salaries on the one hand and profits and other incomes on the other in a ratio of 75:25. Thus labour gets $15,000 and other incomes $5,000. Now suppose that labour productivity undergoes a cost-free increase of 5 per cent, increasing total output to 21,000 units without an increase in the work force. Proceeds rise to $21,000 with unchanged prices. Wages and salaries are increased by 5 per cent, the rate of productivity gain, bringing total labour income to $15,750. But this still leaves $5,250 for profits and other incomes, compared with $5,000 at the starting point. Thus both income components rise by 5 per cent, without a rise in prices.

Another point should be made about the relationship between wages and productivity. While the long-run pattern has been for wage increases to remain roughly within the bounds of productivity, trade unions cannot accept the notion that productivity should form the ceiling on wage gains. To accept this would be to accept the notion that labour's share of a rising national product should never increase; the level of labour income—in both monetary and real terms—would rise with productivity, but labour's share of the total would remain the same. This approach would preserve the status quo of income distribution.

This is not to suggest that organized labour can ignore productivity considerations. Productivity will always be an important factor framing the economic environment within which wage demands are formulated. This is a rather different proposition, however, from the one that productivity growth should be the ceiling over wage growth.

Up to this point we have been discussing labour costs. It may not be generally known that most official documents lump salaries—including those of top management—together with wages when making calculations of labour cost. It is not often that we have an opportunity to see how managerial salaries themselves are moving. A recent study was carried out on this subject by H. V. Chapman and Associates Ltd., a Toronto-based placement and management consultants firm with Canada-wide and international operations.

Average total remuneration, including bonuses, with percentage increases 1961-1965

Title	% increase 1961-1965
General mgr.	23.8
Sales mgr.	31.8
Plant mgr.	26.9
Acctg. mgr.	34.0
Chief engr.	21.4
Purch. mgr.	19.1
Mktg. mgr.	28.0
Secretary	31.2
Ind. Rel. mgr.	29.0
R & D mgr.	24.3
Exp. sales mgr.	19.1
Pdn. contr. mgr.	28.0
Ind. eng. mgr.	27.2
Maintce. mgr.	23.2
Chf. cost acct.	29.7
Personnel mgr.	24.4
ALL JOBS	27.0

Source: H. V. Chapman and Associates Ltd.

The results of this study are very interesting and revealing. They show that between 1961 and 1965, managerial salaries and bonuses in Canada increased by 27 per cent. Over the same period average hourly wages in manufacturing increased by only 17 per cent. Last year the managers averaged an increase of 7.7 per cent and a further rise of 9.1 per cent will have taken place by the end of this year. For some classes of executive the increase over the period was in excess of 30 per cent. These increases do not include other income derived from interest and dividends, stock options, capital gains, etc.

We mention these findings, Mr. Chairman, because we feel that they have a bearing on the debate surrounding labour costs and inflation. In view of the fact that some of the strongest spokesmen for the viewpoint that the greed of trade unions is responsible for inflation come from managerial ranks, it occurred to us that the Committee might find these facts of some interest.

There has been considerable discussion in recent years of one policy instrument for dealing with inflation—"incomes policy". Incomes policy has been subject to a variety of definitions but probably the least objectionable is the one used by the Organization for Economic Cooperation and Development:

> What is meant by an incomes policy...is that the authorities should have a view about the kind of evolution of incomes which is consistent with their economic objectives, and in particular with price stability; that they should seek to promote public agreement on the principles which should guide the growth of incomes; and that they should try to induce people voluntarily to follow this guidance.[1]

While this definition begs a number of important questions—particularly how to "induce" voluntary compliance—there are certain features of it which merit special comment.

In the first place, the definition speaks of incomes, implying income returns to all factors of production. Too often, in our view, "incomes policy" has been used as a euphemism for "wage policy" and this, in turn, has been used by some commentators as a synonym for wage restraint.

If labour has not been noticeably enthusiastic about incomes policy, a large part of the reason lies here. A genuine incomes policy considers the returns to all factors of production—profits, dividends, interest, managerial salaries, rent, etc. Labour could never consider associating itself with any kind of incomes policy which was not prepared to recommend restraint in non-wage incomes wherever economic conditions appear to require such a course, nor with an incomes policy based on the approach "when in doubt—blame wages".

Another interesting aspect of the OECD definition is that while it gives price stability a particular status it does not confine incomes policy to the objective of price stability alone. Incomes policy need not concern itself only with a condition where incomes are rising too rapidly and creating inflationary pressures but also situations—probably more common in Canadian economic experience—where incomes are not rising rapidly enough, and economic activity is sluggish.

Organized labour does not have a closed mind on incomes policy. We are prepared to discuss it with government, management, and other groups. An indispensable precondition for any meaningful discussion on the matter, however, is agreement on the objectives of such policy as we have outlined them here.

Even if such agreement on objectives could be reached it is highly unlikely that an incomes policy is either desirable or feasible in Canada in the forseeable future. In this respect we fully endorse the findings of the Economic Council of Canada.

This country's federal-provincial division of jurisdiction is an obvious and formidable obstacle.

Another is that neither labour nor management in Canada is sufficiently organized and centralized to speak for everyone in their ranks or to bind them by a national decision.

[1] OECD, *Policies for Price Stability*, Paris, 1962, p. 23.

A third problem, and this one has plagued the wage-price guidelines in the United States, is that it is almost impossible to translate a general national guideline into terms that are meaningful for an individual industry or firm. For example, the 3.2 per cent wage guideline in the U.S. was impossible to apply in an economy containing both corporations of General Motor's character and struggling textile mills in New England. On the other hand, to design a different guideline for every industry would be impossibly complex.

Finally, guideline policies run the risk of seriously impeding the allocation of resources. For example if there should be a shortage of skilled workers in certain categories, but employers are inhibited by the incomes policy from offering sufficiently high wage inducements, then the proper incentives for retraining will be lacking and the shortage will persist, with adverse consequences for national productivity.

While organized labour has not closed its mind to incomes policy, we do feel that the problems involved make it very unwise to proceed with any such measures. We agree with the Economic Council concerning the danger that incomes policy "will absorb attention and effort which ought to be going into other policy initiatives".

Up to this point our submission has dealt mainly with the matter of labour costs as a factor in inflation and the policy implications of this issue. We now wish to comment on the broader question of whether Canada has really been going through a period of serious inflation.

In our view there has been a great deal more concern about inflation than conditions actually warrant. This does not mean that we are not disturbed by the rise in price of certain commodities, such as food. The people we represent are acutely aware of rising food costs and are anxious to find solutions. However, if inflation is understood to mean strong, general, and prolonged upward price movements of such a magnitude as to wreak havoc on economic expectations, destroy business confidence, and weaken Canada's international position, then we must say that Canada has not been suffering from inflation in that sense. We do not feel that Canada's record of price performance has been such as to call for major restraining action by government in the form of higher taxes, major cutbacks in government expenditure, deferment of social security programmes, and so on. Any severe restraining action at this time runs the risk of plunging the economy into recession.

Let us examine price movements in Canada compared with those of other industrial countries in the period 1960-1965. During that period consumer prices in Canada rose by a total 9 per cent. This was only slightly more than the U.S. increase of 7 per cent. Compared to all other industrial countries our price level has been remarkably stable. Over the same period prices in Germany rose 15 per cent, in Sweden, 18 per cent, in the United Kingdom, 19 per cent, in France, 20 per cent, in Italy, 26 per cent, and in Japan, 35 per cent.

International Comparison of Consumer Price Changes
(Percentage increase)

	1950-55	1955-60	1960-65
Canada	13	10	9
United States	12	10	7
United Kingdom	34	11	19
France	32	33	20
Germany (F.R.)	11	9	15
Italy	22	10	26
Sweden	33	19	18
Japan	34	11	35

Note: Based on prices in national currencies.

Source: International Monetary Fund and Economic Council of Canada.

These data hardly support the view that Canada has been suffering from a runaway inflation which has been undermining our international competitiveness. It is also interesting to note that Canadian increases in the 1960-65 period are smaller than in either of the two previous five-year periods, 1955-60 and 1950-55.

This should not, of course, be allowed to obscure the fact that the year 1966, when prices have been rising at about a rate of 4 per cent, does not conform to this pattern of stability. Increases of this magnitude over a period of three or four years or more would clearly be dangerous.

However, we feel that consumer prices are due to settle down. They tend to adjust to more fundamental movements in the economy only after a considerable time lag. When an economy begins to slow down in its rate of growth consumer prices may continue to rise at an accelerated rate for several months thereafter. It is highly misleading to use the consumer price index as a guide to stabilization policies. To do so may mean administering depressants to the economy at a time when it has already begun to slow down. This course of action runs the risk of creating high unemployment.

The indicators are not conclusive, but they do point generally to a levelling out in the economic boom that Canada has been enjoying since 1962. In the second quarter of this year, Gross National Product in real terms rose by only a little more than ½ of 1 per cent. Consumer spending on durable goods fell 11 per cent below the first quarter level. This is reminiscent of conditions preceding the recession that began in 1957-1958. New motor vehicle sales declined seriously during most of this year from the peak of last December, although there has been some pickup in recent months. New housing starts in urban centres have taken a very dramatic drop since last year. At their peak in August, 1965, 160,200 units were started. By August of this year there were only 88,300 starts, a decline of 45 per cent. In September there was a pickup in starts but it is too soon to judge whether this means a reversal of the downward trend or just a temporary fluctuation.

The decline in housing starts is almost equally dramatic when considered on a quarterly basis. Starts were down 42.7 per cent in the third quarter of 1966 from the corresponding quarter in 1965.

Steel production also seems to be slowing down. Output in the first eight months of 1966 was only 1.7 per cent higher than the corresponding period of 1965. A rise in the first four months was offset largely by a decline of 3.3 per cent in the May-August period. For the full year, according to a report in the September 27 issue of the *Globe and Mail*, authorities in the steel industry expect that output will be only about 2.4 per cent above the 1965 level compared with annual gains in recent years of 10 per cent or more.

It is not frequently, Mr. Chairman, that this organization draws support for its viewpoint from the *Financial Post*. However, on this occasion we would like to quote from the "Nation's Business" column in the *Post's* October 22 issue:

> Canada's long boom now has barely any momentum. Many of the key indicators of business activity are declining exactly as they did before the recessions of 1954, 1957, and 1960. The steady flow of figures that measure the progress of the economy makes it clear . . . that the peak of the expansion may have been reached in June . . . . Inflation is now less threatening than it was a matter of months ago . . . . Recent developments strongly suggest that the economy does not need more deflation medicine . . . . Prudence would suggest that now is the time for review of Ottawa's slow-down policies. If the current pause is to be a breather and not the beginning of a recession, some relaxing of restraint . . . now seems to be in order.

The Canadian Labour Congress took the view many months ago that a slowdown was coming and advised against the kind of major restraining action that was being urged by some groups. In April of this year the Economic Policy Statement presented at our national Convention warned:

> If the government acts prematurely—as they have done so many times in the past—to impose anti-inflationary measures when no real threat of inflation exists, the effect will be to break Canada's recent economic growth in mid-stride.

Two months earlier, in our Annual Memorandum to the Government, we took a similar position. Developments since then have, we believe, reinforced our stand.

In any anti-inflationary program, judgements must be made concerning the "trade-off" between unemployment and price stability. It is extremely difficult to achieve both low levels of unemployment and stable prices at the same time. Professor G. L. Reuber of the Department of Economics at the University of Western Ontario has endeavoured to measure the trade-off.[1] Making the very modest assumption of international prices increasing at 2 per cent annually, unemployment would have to be around 8 per cent of the labour force in order to hold the Canadian price level constant.

This is a very high "price" to pay for absolute price stability. A less rigid assumption, allowing for small annual price increases of 1 or 1½ per cent would still leave unemployment appreciably above the 3 per cent target of the Economic Council of Canada—which is only an intermediate, not an ultimate, target.

According to Professor Reuber, in order to keep unemployment down to 3 per cent (still assuming a 2 per cent annual rise in international prices) Canada's price level would rise at an annual rate of 3 per cent.

Trade-off measurements are, of course, only approximations. Nevertheless they should form an integral part of our stabilization policy decisions. In our view more harm is inflicted on the economy by the tremendous waste of resources involved in high unemployment, unutilized industrial capacity, and sluggish economic growth than has even been inflicted by moderately rising prices.

We do not suggest that the rise of 4 per cent in the price level experienced in 1966 is exactly "moderate", but, as we have said, we expect prices to settle down as they adjust to the slower pace of the economy.

It should also be noted that the substantial price increase in 1966 was not pervasive throughout the economy but was heavily concentrated in the food component. Between August 1965 and August this year, while the total consumer price index rose 3.9 per cent, the food component rose 7.5 per cent or almost twice as much. Food prices have dropped since August but still remain well above the 1965 level. Price increases in other commodities have been much less pronounced. For example, between August 1965 and August 1966 the prices of durable goods rose by only 1/5 of 1 per cent. Non-durable commodities, excluding food, rose by about 2 1/2 per cent.

In other words, the 1966 price movement did not satisfy one of the basic criteria of inflation; it was not general. The application of general anti-inflationary measures, therefore, would be highly inappropriate.

We wish that we could identify the causes of the sharp rise in food prices and recommend specific solutions. Unfortunately it presents a very complex puzzle. Part of the explanation was provided by the Economic Council of Canada in its *Third Annual Review,* in terms of food shortages and growing costs of

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[1] G. L. Reuber, *Money and Banking in Canada,* ed. E. P. Neufeld, McClelland and Stewart, Toronto, 1964, p. 354.

processing, packaging, and marketing. We suspect that this may not be the complete answer. We note, for example, that over the period May to August when the wholesale price index of Canadian farm products was falling, suggesting an easing of the supply situation, consumer food prices continued to rise. On the other hand, in September and October, when the wholesale index rose, the consumer food index fell. There are undoubtedly some complicated "leads" and "lags" involved in these relationships that deserve explanation. It is our hope that some of the briefs presented to your Committee will throw light on these factors.

Mr. Chairman and members of the committee, our purpose in presenting this brief has been to offer our views on the nature and extent of consumer price movements in Canada. We have tried to answer charges often levelled at organized labour that wages in Canada have been a prime inflationary factor. We have also taken the position that while price increases in certain groups of commodities have been quite remarkable, Canada has not been suffering from a general inflation. We have taken the position that wage controls are neither desirable nor feasible, and that major restrictionist monetary and fiscal policies, of a general nature, are not appropriate at this time and could aggravate a slowdown in the economy that has already begun.

Respectfully submitted on behalf of the Canadian Labour Congress, Claude Jodoin, President; Donald MacDonald, Secretary-Treasurer; William Dodge, Executive Vice-President, and J. Morris, Executive Vice-President.

Mr. Chairman, you will note the signatures of the four officers of the Canadian Labour Congress at the bottom of the document. It is customary for the president of the Congress to present our major presentations. I would like to say to the members of the committee that he would have been here today had it not been that he has been ill for the past two or three weeks and is not sufficiently recovered to make an appearance. I am honoured to represent him on this occasion and I trust the members of the committee will excuse his absence.

Senator McGrand: Your brief says:

> When an economy begins to slow down in its rate of growth consumer prices may continue to rise at an accelerated rate for several months thereafter.

In your opinion, what is the mechanism that causes the price to rise at an accelerated rate after the economy has begun to slow down?

Mr. Dodge: I will refer that question to Mr. Irvine, our economist.

Mr. Russell Irvine, Director of Research, Canadian Labour Congress: I do not pretend to know all the reasons, but one reason clearly is an inventory lag. Very often, stocks are purchased by retailers at a point when the supply position is still tight, the economy is still buoyant, and wholesale prices perhaps are still high.

Depending on the kind of commodity being considered, there may be considerably large inventories which the retailer feels he has to sell off at the retail price existing at the time he purchased his stocks.

There are also other reasons. Even when it is not a question of inventories, a retailer may feel that, once he has got the consumer accustomed to a certain price level for a product, he may continue to charge that price even after supply conditions have changed. That may be part of the explanation for developments in retail prices of bacon at a time when hog prices had declined.

These things take a long time to work themselves out. The beginning of a slow down is usually in heavy industry, in heavy consumer durables, steel

production, plant, equipment, and so on; and it takes a while before that trickles down to retail consumer level.

Senator McGRAND: Do you mean that there are built-in costs into that commodity that have to be returned to the person who has it for sale?

Mr. IRVINE: I am not sure I understand your question. Could I hear it again, please?

Senator McGRAND: A commodity has a cost on the market, at a time when the economy is falling, but that commodity will have certain built-in costs in production that would have to be realized?

Mr. IRVINE: I think that is very often the case, although, as I said, there are also cases where there are not such built-in costs, or at least where the cost conditions have changed, and yet the retailer may try to keep the consumer price level up on the assumption that the demand is sufficiently strong and inelastic to maintain the price. However, the particular point that you made is a major one as well.

Senator McGRAND: Do you think the large increase in wages to certain unions during this present year has no effect on the cost of living or on production?

Mr. IRVINE: I am not trying to dodge your question but I find it difficult to give a concrete answer, simply because we do not have adequate productivity data for individual industries.

I certainly could not try to deny that in certain industries and certain services, wage increases have occurred of very large magnitude, but the case presented by the workers in those industries was that in previous years their wages had lagged behind what they judged to be their productivity increases, and that this was a catching-up process.

However, before we can have any kind of concrete and generally acceptable answers on particular industries where wage increases have taken place, we must have a much better set of statistics, especially on output per man hour, and output per person employed. I think that one of the basic reasons for the very obscure nature of the debate which has taken place on labour costs and inflation is the lack of such statistics on an individual industry basis. We have those statistics on a national basis but not on an individual industry basis.

Mr. DODGE: May I add a little to that answer. The experience of labour over many years has been that very often a substantial wage gain result has a causal effect on productivity itself. It tends to encourage productivity and to induce management to introduce labour saving machinery, new administrative methods and accelerate a trend towards increased productivity.

We have a theory that if we stop insisting upon improving working conditions and improving wages, this may very well result in a slow-down in productivity trends. So it is possible that substantial wage increases this year may induce an acceleration in productivity next year and for many years to come.

It must also be remembered, as we say in the brief, that the wage increases which have been gained were percentage increases this year, but usually they are extended over two and three year contracts and do not go into full force and effect in 1966 necessarily.

Senator McGRAND: I was thinking of truckers, seaway workers and railway workers—that the actual accumulation of those increases must reflect itself in a gradual rise in the cost of living in the cost of goods. That is what I had in mind.

Mr. DODGE: It certainly will have at least a temporary effect on unit labour costs. We think it is much more modest than is generally supposed in the public debate on the subject.

One has to place the wages of seaway workers against the total volume of traffic carried through the seaway in the operation of vessels. When you try to trace that through to the price of the commodities transported, and right down to the level where it hits the consumer, we think that even substantial changes in wage rates have a very modest effect when finally the goods go on the shelves of the supermarkets.

Mr. MANDZIUK: May I ask a supplementary, while the subject of productivity is mentioned? Is it within the power of labour to increase productivity? I was intrigued by this example given at the bottom of page 6, showing 20,000 units of productivity increasing to 21,000 units. First, what is the deciding factor in an increase in productivity? Is it a decrease in the number of people engaged in a certain industry, or is it a speed-up, or is it automation?

Mr. DODGE: I think it is a combination of all these factors. Over a long period of years of study of this question, it has been found that better working conditions and increased wages have a psychological effect on the individual worker and he tends to produce more.

Of course, the introduction of labour-saving devices has a very substantial effect, and new administrative methods also have a substantial effect.

I think that labour can make a substantial contribution in a negative way by not opposing changes when they are introduced—in other words, by co-operating in improving productivity, by not standing pat on restrictive rules and regulations which would prevent productivity increases from being realized.

Mr. IRVINE: If I may supplement Mr. Dodge's answer by an additional point, workers also can help to produce increased productivity by accepting various forms of retraining and upgrading. As a matter of fact, some studies have been undertaken in the United States in order to determine the most important factors affecting productivity over a long period of time. These studies have selected the upgrading of labour skills as one of the most prominent factors.

Mr. MCLELLAND: Mr. Chairman, I would like to have the opinion of the Canadian Labour Congress on the question of the rising cost of food. I would like to draw your attention to the second paragraph on page 16 of your brief, where it says:

> It should also be noted that the substantial price increase in 1966 was not pervasive throughout the economy but was heavily concentrated in the food components.

Owing to the fact that the Canadian Pension Plan came into effect in 1966 with a premium rate of 3.6 per cent on wages, the producer must pay this 3.6 per cent without being able to add any of it on to his costs. However, the transport companies pay 3.6 per cent, the producers pay 3.6 per cent, the wholesalers pay 3.6 per cent and the retailers pay 3.6 per cent, and all of these people can add it on to their costs. Food seems to require much more handling than any other product, and owing to the fact that all these costs can be added on, with the exception of the producer, would the Canadian Congress of Labour not agree that this one factor might be the prevailing factor in the cost of food rising 10 to 12 per cent?

Mr. IRVINE: I think you have to realize that while the employer contributes to the Canada Pension Plan, and this may add to his costs, the employee also contributes to the Canada Pension Plan and this reduces his purchasing power. So, while you may have an added cost-push element in the employer's contribution, you have reduced the demand-pull inflation factor by taking contributions out of the employee's pocket.

Mr. MCLELLAND: They could have a way of adding their prices on. They have a budget for the year. The consumer has to end up paying it all anyway.

They are going to realize a certain amount of profit, so when these items come in they have to budget ahead for them so that they can add them on. Am I not correct in that assumption?

Mr. IRVINE: I think you are correct in that assumption, however—

Mr. MCLELLAND: The consumer ends up paying it because there is no other source to pay it.

Mr. IRVINE: If the demand is not there for certain commodities, the producer will find that he has to lower his price. The demand pull element is reduced, if the employee has less purchasing power as a result of his pension plan contributions.

Mr. MCLELLAND: I do not think that necessarily has been the case. But these necessities of food that make up the nutritional diet, you might say, all have to be added on to the price somewhere. Therefore, I cannot see any other reason why it would not put the cost of livimg up. At least, when you add all these together you end up with 18 per cent or so. This does not figure out that way exactly, but the producer must come off since he has no way of adding his 3.6 per cent on. In other words, if you go back to the farmer or the potato grower or what have you, he has no way of adding his 3.6 per cent on, but from there on the others do. I realize the wage earner pays a portion of it, but I still cannot see why it would not add to the final cost of the product. I just wondered if you did not agree with that.

Mr. IRVINE: Well, it is possible.

Mr. MCLELLAND: Thank you, Mr. Chairman.

Senator CARTER: Mr. Chairman, I would like to ask the witness this question. The burden of your brief, as I understand it, is that recent price increases have not been too serious, because the increases themselves have been rather moderate, have not been general throughout the economy and have not been prolonged, so that the economy reached it speak in June, levelled off and, although you do not specifically state it, you imply that at the present time it is on the down turn. Is that a fair summary of your presentation?

Mr. DODGE: Yes, it is.

Senator CARTER: When Dr. Deutsch was before us, we asked him practically that same question: What was happening to the economy. If I remember correctly, he stated that it was almost impossible to tell what was happening at the present time because the information available was not sufficiently up to date, and in any case, if it was, we would not be able to interpret it properly unless we knew what was happening in the United States, and the information from the United States was not available.

Would you like to comment on the slight difference of opinion between what Dr. Deutsch had to say and what is contained in your brief?

Mr. DODGE: We have never found ourselves in the position of disagreeing with anything that Dr. Deutsch says. I do not think we are particularly at variance here either. This is an assessment of the situation we arrive at based upon certain facts which are known. At best it is an educated guess at what is taking place in the economy.

Certainly, we would bow to Dr. Deutsch's judgment that we have not sufficient information to come to any final conclusion about what has happened. We note these trends. We think they are significant and should be taken into account at the present time. They indicate to us a tapering off of the economy.

We are anxious to avoid any precipitate actions on the part of the government, in particular in the field of monetary and fiscal measures, which are intended to correct a situation which, in the first place, we contend does not exist to any great extent, and, in the second place, even if it does is being corrected of its own accord.

Senator CARTER: Is this labour's thinking as represented by the Canadian Labour Congress: that the economy has in fact started to downturn? And are your future actions based on that particular thinking, which at the moment may or may not be correct?

Mr. DODGE: We think the signs indicate a turning down of the economy.

Senator CARTER: Would any future action taken by labour, generally, be based on that assumption?

Mr. DODGE: Yes, unless we see evidence of a change. We agree that these are temporary phenomena, perhaps, and we are watching the situation very closely.

Senator CARTER: On page 2 of your brief you state:

> If productivity rises sufficiently it is possible for wages to rise very substantially without resulting in any increase whatever in the labour cost per unit of output; indeed, if productivity rises faster than payments to labour, labour cost per unit of output will decline.

When Dr. Deutsch was here we asked questions about this gap in the increase in productivity as compared to the increase in labour costs and to price increases generally, and I gathered from what he told us that our aim should be to keep that gap as small as possible. He indicated that they should be parallel.

Later on in your brief, on page 7, you deal with labour's share of the productivity. However, before I come to that I want to ask you this question: When you are bargaining with management to get your vital share of this bigger pie, this increase in productivity, do you ever give much consideration to the consumers' entitlement to a share of that productivity?

Mr. DODGE: I don't know why we should make too much distinction between the consumer as such and the people whom we represent. To a great extent they are consumers, and in fact I think they represent more particularly the consumer element in the population. We think in terms of price levels; we watch them very closely. We try to keep wages in accordance with the changing level in prices. We try also to make sure that the wage component or that wages themselves are sufficiently high to maintain a high level of consumer purchasing power. I think this is essential for the smooth functioning of the economy as a whole. When a union is contemplating wage demands, it is likely to consider any one of three factors and sometimes all three of them. Perhaps there are many others as well, but it will be remembered by members of this Committee that frequently over the course of the years wage claims have been based upon a perceptible change in the level of price. Back in the Great War years the idea of a cost of living bonus was introduced, and the trend followed in wage developments was that wages were in a constant effort to catch up with the changing levels of price. We depended heavily, in arguments before boards of conciliation and in fact to face meetings with employers, on the price level as a means of getting the wages up. This is not wage-cost pushing prices up. Rather is it wages trying to catch up with already advancing prices.

Then you must take into account the profit position of the companies. It has been suggested sometimes that unions force companies into bankruptcy by refusing to take into account the difficulties with which a particular firm or industry may be confronted. If that were so, of course, substantial unions would be arbitrarily setting a percentage increase in wages as their objective and then riding roughshod over any company that refused to grant that particular increase, and you would have standard wage patterns in the steel industry and so on when, as a matter of fact, our contracts in these industries show that there is wide variation in the wage rates. This is all governed by what the union feels a company can legitimately afford. In other words, the position of the company is taken into account.

Then you have the second criterion—how is the company making out? I think there are very few examples of a company having been actually driven into bankruptcy by the extortionate demands of a union.

The third point is the possible increase in productivity. We say on page 2 that changes in productivity would have to be taken into account in negotiating contracts. As a rule we do take that factor into account.

Senator CARTER: You have given a very long answer to a very short question. You are using up a lot of my time for asking questions.

Mr. DODGE: I was simply trying to do justice to the question.

Senator CARTER: But will it not be in your best interests as well as the best interests of the economy to give more consideration to the consumer entitlement to a share in this productivity which would give your present wages more purchasing power and make our economy more competitive both in domestic and international markets.

Mr. DODGE: I think the whole tenor of our brief indicates that that is precisely what we do. We take into account productivity and the rising unit labour cost, and this is what affects the consumer.

Senator CARTER: On page 7 you make it clear that it is a case of a struggle between yourselves and management for the share of that productivity. Where the consumer fits in there is a case of the devil take the hindmost.

Mr. DODGE: If our bargaining position happens to be strong, and it usually is in times of full employment, what we are engaged in is a tussle with management to see how the profit margin is shared between the labour factor in production and the capital factor in production. That does not affect the consumer at all; it simply means one gets a larger share and the other a smaller share and the distribution takes place at that level.

Senator CARTER: Are you saying productivity cannot be used to reduce prices?

Mr. DODGE: Yes, it can.

Senator CARTER: But is it?

Mr. DODGE: Very often.

Senator CARTER: How?

Mr. DODGE: The increase in productivity has a substantial effect in maintaining the prices of many products at stable level. There are examples of prices of durable consumer goods and non-durable consumer goods where the prices have decreased over the years. This is the result of increased productivity. We are not opposed to that, in fact we favour it. We would like to see more productivity increases reflected in better prices to the consumers.

Co-Chairman Mr. BASFORD: This is a very interesting line of questioning, but I wonder if I might fit Mr. Mandziuk in here.

Mr. MANDZIUK: I think the question I had has been partly answered. There are so many questions in this line. I surrender. However, before I do that, there is one question I would like to ask. I am very pleased to see a sentence here on page 13, in the third paragraph. "However, we feel that consumer prices are due to settle down." What is your basis for saying this—and then I will have no more questions.

Mr. IRVINE: Our basis for saying this is our historical observation of business cycles. We notice some of the main indicators starting to go down, for example, steel production, sales of consumer durables and the overall gross national product itself. You will find through observation of the business cycles in the past that if these trends continue it is inevitable that eventually the price level starts to settle down. As I said, this is based upon historical observation of past business cycles. If you look at the rate of growth of prices themselves, while they

have continued to rise, they have been rising at a slower rate in the last few months of this year than was the case earlier, and I think it is particularly significant that the component that was leading the consumer price index all the way, namely food, has started to drop. Therefore our observation of these factors leads us to the conclusion that consumer prices will be settling down during 1967. I do not mean they will settle down to absolute stability, but the rate of growth will certainly drop from the pace set this year.

Mr. McLelland: The Economic Council of Canada said that the incomes for the primary producer of food, meaning the farmer, were at an all time low compared with others. Do you mean that he will stay there or that he will continue to drop?

Mr. Irvine: Well, I am not in a position to comment on how farm incomes will move. That depends on many things besides price levels and the farmer's share of the retail dollar. It depends partly on fluctuations in crops and things of that nature. If you mean how would the farmer's share of the retail dollar move, that is something I am really not in a position to predict. The farmer is in a very difficult bargaining position, and he is, I think, very much at the mercy of the wholesaler and the large retail chain stores. Without more bargaining power, I could not make any kind of convincing prediction as to how his share will work out.

Mr. McLelland: You did mention that the chief component, food, was going to settle down.

Mr. Irvine: Yes, but, of course, the price received by the farmer and the total farm income does not bear a consistent relationship to the retail price of food products. For example, if you examine the movement in the food component of the Consumers' Price Index over this year you will see it rose steadily throughout the year until September, whereas the farm prices of food products moved all over the place—they moved up, they moved down, and stayed constant for a while.

Co-Chairman Mr. Basford: Mr. McLelland, I wonder if I could move back to Senator Carter?

Senator Carter: I have a number of questions, and perhaps I could ask them a little later.

Co-Chairman Mr. Basford: I have quite a long list, and I would like to give others a turn. Mr. O'Keefe?

Mr. O'Keefe: Mr. Chairman, I want to congratulate these gentlemen on this brief. It is an excellent one, but I think it is unnecessarily pessimistic. Do you agree to that? Do you think we are going to have a recession?

Mr. Dodge: We think that it is a possibility. It is a possibility that there is going to be a downturn in the economy, and we are always striving for stability—particularly stability of employment.

Mr. O'Keefe: But you talk about recession.

Mr. Dodge: I think maybe that would be a little extravagant, to say we are going to have a depression, or even a recession, but we think there is some danger.

Mr. O'Keefe: There is always the danger, but more often than not there is no real danger.

Mr. Dodge: We think there is a danger that if the current situation is misinterpreted and people believe there is a general inflationary problem, they may be induced to adopt fiscal and monetary measures which will precipitate a serious decline in employment. That is what we are worried about.

Mr. O'Keefe: Would you not agree it is still worse for an organization like yours to talk about recession?

Mr. DODGE: Do you mean it has a bad psychological effect?

Mr. O'KEEFE: Yes, of course. Yours is a pretty important organization.

Mr. DODGE: I think it is not a bad thing to call attention to some patent facts in the economic situation. All of the facts we have quoted here have been rather widely publicized, and we are not putting any pessimistic interpretation on them. We are just saying, "Here are a few indicators. Let us watch the situation." I do not think we are moving into a serious recession at the present time, and I do not want anybody to get the impression that the brief is indicating anything of the sort; but let us not do anything that might precipitate one. That is what we are saying.

Mr. O'KEEFE: On page 2 of your brief you say:

> In some years wages have grown less rapidly than productivity...

Would you tell me what years, and what the ratio was, or is?

Mr. IRVINE: I have that information. In 1961, and 1962 wages grew more slowly than productivity. They grew about the same us productivity in 1963 and 1964; and in 1965 wages did increase faster than productivity.

Mr. O'KEEFE: You have not got the ratio?

Mr. IRVINE: Well, I can give it to you in a moment here, if I can find it. In fact, I think we quoted some of those figues in our brief. What page is that? Oh yes, in 1962—

Co-Chairman Mr. BASFORD: What pages is that?

Mr. IRVINE: That is page 5 of our brief. There is a table there. This does not include 1961. There was a drop in 1961 in labour costs per unit of output of about the same magnitude as 1962, which was 0.3 per cent. That means wages and other labour payments grew less rapidly than productivity. In 1962 there was a drop of about 0.3 per cent, and there had been a drop of about the same magnitude in the previous year.

Mr. O'KEEFE: What is your opinion on advertising—the amount, the quality and the shape—as it affects the cost of living?

Mr. DODGE: I think our position is that advertising of the sort which we are inundated with at the present time is unnecessary, unjustified and, to a great extent, untruthful. I positively—

Mr. O'KEEFE: I did not quite get the beginning of your sentence. Did you say it is "unnecessary"?

Mr. DODGE: Yes, I say it is unnecessary, unjustified and a great deal of it untruthful. I have no hesitation in saying I do not believe that more than perhaps 10 per cent of the guff that I see on television about the products that are being advertised—and I think this goes for most of us in the labour movement—I think there is a vast amount of money spent on advertising, and ultimately passed on to the consumer, that could very well be saved. Is that sufficient?

Mr. O'KEEFE: Yes, thank you. Just one more comment. Would you agree that most of the financial statements of the larger companies, the big companies, come up now with the same old story, sort of, that in spite of increased costs, unreasonable demands by labour and controls imposed by Government, the company has now enjoyed new peaks in profits, sales, etc.? I know the reports do not say that, but in plain talk that is what they mean. Have you any comment on this?

Mr. DODGE: That is a pretty typical approach. You see it in the financial papers and reports of companies. We encounter it across the bargaining table. We do not accept the premise that the difficulties encountered by firms today are in any way the result of unreasonable demands on the part of labour, and we

pay no attention to that kind of approach, but we are meeting them in bargaining situations.

As I said earlier, we consider the cost-of-living trends, the profit position of the company as it is reflected in its financial statements, in so far as we are able to get at the truth of them, and the difficult-to-assess factor of productivity. It is possible for us to discern productivity changes in a broad sense. For example, we know that the non-operating railway unions today bargain for something less than 100,000 employees, whereas 10 or 15 years ago the number they represented was 130,000 or 140,000. By rough arithmetic you can discover that the railways are moving more freight with a great many fewer employees, and the answer inevitably is that they must be enjoying a considerable increase in productivity per man day on the operation. We use factors like that where we can.

Mr. O'KEEFE: That is very obvious, I think, Mr. Chairman.

Co-Chairman Senator CROLL: Mr. Chairman, could I ask one supplementary question?

On Tuesday we heard the Canadian Manufacturers' Association, and you are well acquainted with them. They are the top businessmen in our country and they watch their dollars pretty carefully. Some were eminent heads of corporations who came here, and they insisted and repeated that they did not spend a dime for advertising unless they got results. They say it is not a luxury at all; that it either brings them results or they do not spend the money. What do you say to that?

Mr. DODGE: I do not doubt that is probably true. I was reading in the paper the other day about somebody who has been fined for selling a gadget that he said would reduce the consumption of gasoline in cars by a considerable percentage. He got results; he sold a lot of them.

Co-Chairman Mr. BASFORD: Not necessarily the results that he wanted though!

Mr. DODGE: They were not worth what he said they were worth, but the advertising he resorted to got him results. He sold these unless gadgets in large quantities. Of course, in the end he landed a nice substantial fine for false advertising, but he was one of those who got caught.

Co-Chairman Senator CROLL: Mr. Dodge, the people I am talking about—and you know them because you have dealt with them—are Inglis, Dupont, and the Steel Company of Canada. They were all here. I am talking of that calibre of people. That is the story they kept repeating, and you have to pay considerable attention to what they have to say.

Mr. DODGE: I am not condemning all advertising out of hand. I think there is a certain amount of value in notifying the consumer of the types of products that are available, and giving a truthful account of what they can accomplish and of what they are capable of doing. I think there is a perfectly valid argument in favour of that, and I have no doubt that those who present their product in a truthful and an attractive form will succeed in outselling others who do not do so well. They probably get some benefit from that. I do not think that that is really what the consumer complains about when he complains about the cost of advertising.

Mr. ALLMAND: I have a supplementary question, Mr. Chairman. Would it not be true to say that if a company increases its market and sells more products that this is going to benefit the worker who produces those products by giving him larger wages and more benefits? Why would you not support a company that takes steps through advertising and promotion to sell more of its products if it means more income and a greater share for the workers?

Mr. DODGE: As I say, I have no particular objection to their advertising their services. What I object to principally is the rather enormous budgets that are

assigned by companies to advertise something that has really no discernible benefit to the consumer.

Mr. ALLMAND: But they say that if they do not do that they will not sell as much of their product. Would not that reflect on the workers you represent?

Mr. DODGE: If they did not advertise soap, people would not wash their clothes?

Mr. ALLMAND: No, they would not be able to sell as much.

Mr. DODGE: I am sorry; I cannot accept that.

Mr. ALLMAND: That is fine. Maybe you are right.

Mr. SCOTT (*Danforth*): Mr. Dodge, like everybody else who has appeared before us, you have made an admirable defense of your own position—namely, whatever causes this, it is not you?

Mr. DODGE: That is a clear gain, I might say.

Mr. SCOTT (*Danforth*): What disturbs me about your brief is that you seem to be saying that in the fight for the distribution of what we call the economic pie labour can look after itself, you seem to be advocating a hands-off policy by the government. Am I wrong?

Mr. DODGE: No, we start the brief by saying we look forward to substantial benefits coming out of the deliberations of this committee. As a matter of fact, I think, if I may say so, some of the effects of the inquiry here are already being felt in the supermarkets of the country.

Co-Chairman Senator CROLL: Mr. Dodge, you may say so.

Mr. SCOTT (*Danforth*): Senator Croll would be glad to have you make that assertion.

Mr. DODGE: I think the studies here are already having an effect, and I think that that is very good. What we are urging is that specific measures, some of which have already been attempted, are either not justified or could not be advantageous to economic growth and to our own position as representatives of the workers of the country. We are anxious to avoid restraint being imposed in the form of fiscal-monetary measures which, as I have said several times, would have a bad effect on the economy. It is in this sense that we want government to exercise a little care.

Mr. SCOTT (*Danforth*): What you have told us is that organized labour has kept up in terms of productivity and wages with the rise in prices?

Mr. DODGE: Yes.

Mr. SCOTT (*Danforth*): But you represent only 30 per cent of the people, and that in the confrontation between labour and management there is 70 per cent of the people who are caught.

Mr. DODGE: We have not said that. We have said that certain fixed income groups get caught in the squeeze, but, surely, it is pretty clear that labour, representing 30 per cent—and a much greater percentage than that in the key industries or the pattern-setting industries of the country—plays a very important role in setting the level of incomes by establishing patterns in those key industries. We represent 30 per cent of the total labour force, but the total labour force includes an awful lot of people who will never become members of trade unions. We represent a much higher percentage in transportation, pulp and paper, mining, and basic steel, and it is in those industries that the general wage patterns of the country are set.

Mr. SCOTT (*Danforth*): But what is labour's view—or does it have one?—of the inadequate machinery that exists for protecting and distributing the growing national product amongst unorganized groups? What is your social view?

Mr. Dodge: We, of course, believe, and have always advocated, that a substantial share of the gross national income ought to be apportioned among the people who, in many cases, do not belong to unions, and would not want to belong to unions. We have always been advocates of social security measures, and we continue that advocacy, and are prepared to make whatever contribution may be necessary from the general revenues of the country to carry out these programs. Similarly, I think we share the general public attitude about the rights of the consumers, and want to carry out policies ourselves which are not injurious to the consumer. We would expect the government to take what action may be necessary to protect the consumer from the exploitation of profiteering elements and false advertising and the many gimmicks that are—from planned obsolescence of products, administered pricing methods, combines in restraint of trade, and all those other features of economic life in this country which have an adverse effect on the consumer interest. We expect the government to operate in all these fields, and we will applaud and support government activity of that sort.

Mr. Scott (*Danforth*): You would not have an objection to strong government initiative?

Mr. Dodge: Certainly not. We would support it very strongly.

Mr. Scott (*Danforth*): The other thing that has come up in our hearings is that one of the contributing factors is in the rigidities caused by lack of skilled people, and lack of knowledge as to what skills we need, which impede the efficient operation of our industries.

Mr. Dodge: We subscribe to that.

Mr. Scott (*Danforth*): What comments do you have on that?

Mr. Dodge: We subscribe to that. We have strongly advocated the development of an active manpower policy in Canada, an essential element of which is, of course, the training of the labour force. We believe we have spent too much time in thinking about the labour force in terms of the quantity of people available, and not enough about the quality of the people. We think that an essential element in increasing productivity is to have a well trained and better trained labour force as a whole. Somebody in the States argued—and I remember saying this to the Senate committee on Manpower and Employment—that an investment in education has a greater return in terms of productivity in the economy than an equivalent amount of money invested in labour saving machinery. I think that this is our position. We are in favour of upgrading the labour force as a whole, and this is an important productivity factor.

Mr. Scott (*Danforth*): That is all Mr. Chairman.

Co-Chairman Mr. Basford: Mr. Allmand?

Mr. Allmand: Mr. Dodge, does the Canadian Labour Congress or its affiliates offer any consumer services to its members, such as giving consumer reports on products; or does it help its members take action against retailers or manufacturers who do not have honesty in packaging and advertising, and all that sort of thing?

Mr. Dodge: No, we do not publish anything of that sort. It is a very good idea, though.

Mr. Allmand: I ask that question, because we had before us the man who runs the economic council in Sweden, who said that in Sweden they do not have any government consumers department because it is done by the trade unions.

Mr. Dodge: I think it is a very useful task that trade unions could perform. We do have a very close association with the co-operative Union of Canda, and in fact operate a joint committee with them, the Co-operative-Labour Committee, and we jointly finance, with the Co-operative Union of Canada, staff who

work in the field of consumer co-operatives. We also encourage, at seminars and conferences, participation by representatives of the consumer's association. These have not been particularly successful, but I think your idea ought to be explored by labour unions.

Mr. ALLMAND: The next question: As a matter of policy, when your union bargains, do they bargain in contemplation of inflation? I ask that, because in your brief you mention how the wage rates you have obtained through contracts through the years have been partly taken away by inflation. But we have had the allegation that, on the other hand, when you bargain you bargain considering, say during a two or three year contract, that prices are going to go up in that period, and in doing that some people say that by bargaining like that it in fact pushes the inflation along still further because you are asking for wage rates not in view of what price levels are now, but what they may be, and you presume they are going to go higher.

Mr. DODGE: Well, it is true that that argument has been advanced in bargaining negotiation of contracts, but it is rarely successful, you know.

Mr. ALLMAND: You mean on the part of the unions?

Mr. DODGE: That is right. We rarely win that kind of argument. Boards of conciliation tend not to take into account possible future inflationary trends. And you must remember, as we say in the brief, that most of the contracts are for terms of longer than one year. We sometimes say we know there has been a price movement of this proportion and we anticipate there will be an additional price movement in the second or third year of the proposed contract—we want compensation for that; but we rarely succeed in getting it.

Mr. ALLMAND: Do you have any policy on the way you would provide for this sort of movement in prices by a cost of living adjustment clause, or do you always ask for set increases. It seems to me that most wage contracts that I follow have always provided for so many cents increase, say in 1965, so many cents increase in 1966, and so many in 1967, but do not seem to have a clause which would follow the consumer price index, or something like that. This is a trend in social welfare throughout the world. Do you have any policy? Would it not be better to have clauses, once you have a standard, which would be more or less acceptable and that would allow you to increase, or even decrease, according to the cost of living?

Mr. DODGE: Of course, that was a very popular type of clause during the war years and for a number of years afterwards when the cost of living bonus was a standard feature of contracts in that period. Gradually, when prices settled down after the sharp rise which took place after the lifting of controls, these cost of living bonuses were incorporated into wage rates, and they began to disappear and during the late fifties there were very few of them remaining in contracts. However, there has been a noticeable increase in the introduction of that formula into contracts in the last couple of years, probably because of the anticipation of price increases which you refer to. We have no policy on that.

Mr. ALLMAND: It is alleged that whereas in certain industries an industry may often have to take a decrease in profits over a certain year, and this is shown to be so by the facts, and sometimes an industry even stands losses in certain years, that unions refuse to cut back on wages, or even on wage increases. Do you have any policy on this? Would it not be better sometimes in certain industries if they are losing markets and losing sales, whether through increased competition or increased foreign competition, or a decrease in the rate of our money, and so forth, if the unions would agree to cutbacks? Have they ever agreed to cutbacks?

Mr. DODGE: There have been cases in labour history in this country where it has been done to a substantial extent. I am a former employee of the C.N.R. and remember during the depression years the basic rates of the railway employees

were reduced by a very substantial percentage cutback in wages, by agreement with the union, by a formula for reducing them and restoring them. Eventually they were restored. But there has not been much incidence of this sort of thing lately.

The usual compensating action taken by the company if their business is declining is to lay off a substantial number of workers and cut their costs back by that method; or they perhaps reduce the hours of work in the plant, and in that way cut their expenses to meet the situation. But we have a theory which was expressed in a slightly different way earlier, that we ought not to subsidize by a low wage policy the inefficient operations of a company.

Mr. ALLMAND: I would agree with that; there is no argument there.

I want to refer to your table on page 8, which is a very interesting table because when we had representatives here from the Dominion Bureau of Statistics we asked them for a breakdown. As you know, they had figures for wages and salaries altogether, and I found this misleading because you cannot really tell how much of an increase is going to organized labour and how much for salaries. I was going to ask, first of all, do you know what percentage of the wages and salaries income goes to salaried people such as are listed in this table as compared to people with wage rates? What percentage of our Canadian income?

Mr. DODGE: You mean total salaries paid in the industry, how much of it goes to salaries for executives?

Mr. ALLMAND: Salaries for executives. By wages I mean men on hourly wage rates, on piece rates, and that sort of thing. This table refers to salaried employees.

Mr. DODGE: Yes.

Mr. ALLMAND: The figures put out by the Dominion Bureau of Statistics include both of them. I would like to know what percentage of that D.B.S. figure, which is salaries and wages together, includes salaries, so that we would know just how much of that total figure is going to people in salaries as opposed to wages.

Mr. IRVINE: I think D.B.S. would break it down if you put the arm on them.

Mr. ALLMAND: They said they couldn't but they would like to. I mean like Chapman and Associates.

Mr. IRVINE: Chapman and Associates did it by survey, and of course in their survey they did not include all salaried employees but only managerial salaried employees. Now, when you come to salaried employees as a whole that is a much vaster body of people, including clerks, stenographers, typists and so on. This survey by Chapman and Associates was a relatively limited one and confined to those in top managerial classifications.

Mr. DODGE: It also shows the movement in particular job rates, classification rates. It does not show how many general managers there are and how much they earned in total, so you could not get the figures that way.

Mr. ALLMAND: Would the Canadian Labour Congress like to see a more specific breakdown in D.B.S. figures of wages and salaries?

Mr. IRVINE: Very definitely.

Mr. ALLMAND: I personally would like to see breakdowns for salaries and wages and also blue and white collar breakdowns if I could. Do you have any policy?

Mr. DODGE: We would be very happy if the D.B.S. would produce statistics.

Mr. JOYAL: Could not the Pay Research Bureau of the Public Service do that, as that is the way they set the salary pattern?

Mr. DODGE: They might have the kind of information that Chapman has given us here. What does a professional engineer employed by private industry get? They would be able to make a comparison to get the total wage bill in the country, what goes to executive officers of corporations and so on. We do not know that. How much of it goes to the white collar salaried worker who is not in an executive position? We do not know that.

Mr. JOYAL: Chapman Associates can only give figures on those particular categories of management for which they are doing recruiting. If they do not recruit clerks for major manufacturing, or stenographers, they could not give any figures on that. But the Pay Research Bureau in Ottawa could provide a lot of useful figures. They have volumes on this.

Mr. DODGE: But not the answer to the question that Mr. Allmand is posing.

Mr. ALLMAND: Is it not true that managerial salaries usually follow wage increases? In other words, if you get a situation at any given time, if there is bargaining in that company between unions and management, and the unions get the wage increase, then there is an increase in the salaries. Is this the usual pattern? I understand that it is. I am not talking of bonuses but of salaries?

Mr. DODGE: I think that in the industries which have a fairly stable managerial staff, sometimes this is the case. As I said earlier, I worked at the C.N.R. and we used to find that some of the managerial personnel would be in the background cheering for us when we were negotiating increases, because they knew it would be reflected in increases for themselves.

Mr. JOYAL: That is what I was thinking of.

Mr. DODGE: I think a much stronger influence on it is the competition for highly trained personnel in this field. In our own movement, we find that highly trained personnel cannot be obtained unless we are prepared to compete with industry for those people. That is what the people in the Government service have found also.

Mr. ALLMAND: Do you have any affiliates with farmers' unions or professional unions? Do you affiliate or attempt to organize them?

Mr. DODGE: We are interested in organizing professionals. We have no association with the general body of professional workers, such as nurses, teachers, professional engineers. We have some small units in the field of draftsmen who belong to some of our affiliates.

As regards farmers, we would not expect any change in the situation as it is now, where they maintain their organizations separate and distinct from ours. We have some contact with their organizations but we see no possibility in the future—in the immediate future, anyway—of an organizational alliance, much less a merger.

Mr. ALLMAND: What is your attitude to price control, either in essential products or in general?

Mr. DODGE: We would think it would be very difficult and probably not advisable to have general price controls.

Mrs. MACINNIS: Have you considered that the housewives' boycotts were justified?

Mr. DODGE: Yes, I have.

Mrs. MACINNIS: Why?

Mr. DODGE: Because this has had a considerable effect on the attitude of the people who determine the price of goods. They have had to be a lot more careful, owing to the impact of this kind of drive, than otherwise they would be.

Mrs. MacInnis: I notice in the cost of living index this morning that housing and clothing and personal health care and several other items are up. Do you think it would be a desirable thing now to have boycotts on these other lines? Or have you got a better idea?

Mr. Dodge: Whether by boycott or some other method, consumer pressure in these areas could have a fairly good result.

Mrs. MacInnis: What other form of consumer pressure? What other pressure could be exerted?

Mr. Dodge: First of all, in housing...

Mrs. MacInnis: Is your own organization in any position to exert pressure on prices or at least on unjustifiable living cost prices?

Mr. Dodge: You have to take each of the things you mentioned separately, I would think. Take housing. In the field of housing, scarcity of homes—incidentally, we understand that this is becoming a more acute problem day by day—is a factor in forcing prices up. That scarcity can be corrected only by substantial action by the Government in the provision of funds and the supply of low cost housing at Government expense. This corrects the market tendency, so I would, as a consumer of housing, exert a good deal of pressure at this stage on governments to operate in this field.

Another way of handling the problem is through the development of co-operative housing on a substantial scale in this country, which I think is a serious lack.

When you come to health care, other methods similar in concept to those could be employed.

Mrs. MacInnis: Let us come back to food. I would like to get at what kind of Government action you think would be desirable. You said that advertising entailed vast amounts you considered unjustifiable and so on. Would you favour limiting the amount of advertising that these firms could claim on their income tax?

Mr. Dodge: I think that would be a very effective measure. This would make them keep their advertising budgets down.

Mrs. MacInnis: Do you think it would be possible to discriminate between the legitimate business of communicating by advertising, and the high pressure salesmanship?

Mr. Dodge: It might have some effect but perhaps another form of action may be necessary to correct this tendency to untruthfulness in advertising. We have agencies of government such as the National Research Council. I think that body should examine advertising claims and that they should have an advertising budget of their own, to say that this detergent does not do the things the manufacturer says it does, that this headache remedy is not in fact a headache remedy at all but a poison, and so on.

Co-Chairman Senator Croll: Mr. Dodge, the British Government at the highest level, the American Government at the highest level, and the Canadian Government at the highest level, have all said "Stop smoking those cigarettes, they will kill you". Do you know how many people stopped?

Mr. Dodge: I have, for one.

Co-Chairman Senator Croll: What astounds me is that the sales figures seem to be larger than ever. You cannot get a better authority than that.

Mr. Dodge: That may be true, but at least smoking is a habit, a narcotic. I do not think detergents are a habit. It would not be really difficult for a housewife to break off using a particular detergent if she learned it was not worth a dime.

Mrs. MacInnis: You mentioned the Research Council. Would you favour collecting all those forms of consumer protection throughout the Government, into a department of consumer affairs? Would your association favour that?

Mr. Dodge: Yes.

Mrs. MacInnis: You were talking on page 5 of your brief about the peaking of profits and the peaking of wages. What about all those people who are neither in organized labour nor in management, who do not enjoy any peaking. The only peaking these get is that of a rise in prices. This is a very big group of people, unorganized workers, people on pensions, on retired allowances, on social assistance. There are also those who will be dismissed through automation, no matter how well it is worked out. What specific measures, if any, have your organizations got to deal with that whole growing segment who cannot hope to get an increase in their salaries or their profits?

Mr. Dodge: That is a very big question, dealing with several distinct groups.

Mrs. MacInnis: Let me break it down. You said you are in favour of social security measures. Would you be in favour of a principle that everyone should have a guaranteed income?

Mr. Dodge: Yes.

Mrs. MacInnis: Geared to the cost of living?

Mr. Dodge: Geared to the cost of living and geared to other things, of course; geared to the general productivity improvement and to the economy as a whole.

Mrs. MacInnis: Do you believe that such a guaranteed income would tend to stabilize these peaks up and down of the economy, inflation and depression?

Mr. Dodge: Depending upon whether those in receipt of this guaranteed income had adequate bargaining power to deal with the changes as they occurred. I think this is important.

Mrs. MacInnis: In other words, if they were flexible?

Mr. Dodge: Yes, and if there were the necessary instruments, or institutions, through which the settlement of the issue, and the exertion of pressure, could be brought about.

Mrs. MacInnis: Just one more thing: Suppose that the trade union movement got strong enough in this country to be able to bargain in large blocks, as we are told is done in Sweden by the whole trade union movement versus the whole employer movement. Would that make for fewer strikes in this country and a better level of stability?

Mr. Dodge: Assuming that it were possible, and I say it is not possible to have it in this country, but assuming that it were possible, yes.

Mrs. MacInnis: You do not think it would ever be possible?

Mr. Dodge: No, I think that the structure of this country is much different from that of the countries in which this sort of operation is carried out. In Sweden, for example, they have a unitary state, whereas we have a federal state and only a small percentage of the total organized workers, or total workers for whom bargaining contracts exist, are governed by federal legislation. Quite apart from the fact that we have considerable disparity of economic advantages as between one part of the country and another, we have the problem of the control by the provinces of the instruments of bargaining.

Mrs. MacInnis: Is a national manpower policy going to be able to work, then?

Mr. DODGE: I think it can work, but only on the basis of an agreed arrangement between the federal Government and the provinces. If the provinces cooperate with a national manpower policy, then fine. And I sincerely hope that the provinces will, because it would be a disaster to the whole country if they did not. If they refuse to cooperate, it will not work. We have little chance that we can develop the necessary instruments to bring about national bargaining in Canada. Would it reduce the incidence of strikes, if we could? It probably would. I do not think it would eliminate strikes. I do not think anything will eliminate strikes. There are people who clamour for compulsory arbitration of disputes in certain sectors of industry. I contend that they will not eliminate strikes, but I think, if we could bring about national bargaining in the same way as is done in Sweden and other countries it might reduce the incidence of strikes, yes. However, I do not feel very hopeful that it can be achieved here.

Senator O'LEARY (*Antigonish-Guysborough*): Mr. Dodge, I am looking at page 8 of your brief, at the second paragraph referring to managers' salaries, as indicated in the table above. I assume that H.V. Chapman and Associates Limited broke this table down by years, and this is how you got your 1965 figure for the 7.7 per cent increase, and, likewise, your figure for a further rise of 9.1 per cent for 1966. These are from the same source.

Mr. IRVINE: It is all from the same source, yes.

Senator O'LEARY (*Antigonish-Guysborough*): What was the average hourly wage increase in organized labour in 1965?

Mr. IRVINE: I am not sure that I have that figure here. I will try to find it for you.

Senator O'LEARY (*Antigonish-Guysborough*): I would also like as well one further increase which will have taken place in 1966. I would like to get the figure for the managers there, since you listed the managers.

Mr. DODGE: You understand, of course, that it is relatively easy to derive this figure from a survey made of individuals in a relatively small sample. The kind of figure we have to resort to in order to answer your question is a national consensus.

Senator O'LEARY (*Antigonish-Guysborough*): I am looking for some consistency here. If you give a figure like this, we would have a comparison. Up to page 8 you are talking about output, and then you go on to total remuneration. You have a figure for managers, and I would like a comparison for average hourly wages.

Mr. DODGE: It is a perfectly valid question.

Mr. IRVINE: I regret that I do not have the 1965 figures or wages with me. If I were in my office I could find it quickly, and I will later. I do not want to make an estimate of it, however.

Senator O'LEARY (*Antigonish-Guysborough*): You would not want to make an estimate?

Mr. IRVINE: No, because it would be guess-work. I just have not looked at the figure for that particular year recently. I examined the figure for the average manufacturing wages over that whole period of 1961 to 1965, but I do not have the figure with me for 1965 itself, unless Mr. Fryer has it in his papers, and I understand that he does not.

Senator O'LEARY (*Antigonish-Guysborough*): That is all.

Mr. DODGE: Would you like that information supplied?

Co-Chairman Mr. BASFORD: I think it would very useful. You say in your brief that it would be useful to see how managerial salaries have been moving relatively.

Mr. IRVINE: The wage figure has been indicated for the whole period. If you will notice the second sentence in that paragraph, you will see that it says "over the same period average hourly wages in manufacturing increased by only 17 per cent."

Co-Chairman Mr. BASFORD: Then your next sentence is more pertinent: "Last year the managers averaged an increase of 7.7 per cent and a further rise of 9.1 per cent will have taken place by the end of this year."

Mr. IRVINE: The question this gentleman was asking is what happened in 1965, and how was the wage increase in 1965 compared with the salary increase indicated here of 9.1 per cent for that particular year.

Senator O'LEARY (*Antigonish-Guysborough*): Of course I asked that question because you immediately departed from the point. You said that last year the managers average was 7.7, so, of course, my question is logical.

Mr. DODGE: May we supply that information later, Mr. Chairman?

Co-Chairman Mr. BASFORD: Fine.

Mr. JOYAL: Would you include also what would be the cost of the fringe benefits? I take it that that figure is inclusive of straight wages and fringe benefits.

Mr. IRVINE: It does not include fringe benefits.

Mr. JOYAL: Well, the figures from various employers have included the total of wage increases and fringe benefits, and some of them have even broken those figures down into the different components. It would be good to be able to check your general figures against the specific figures which have already been provided to the committee.

Mr. John Fryer, Assistant Director of Research, Canadian Labour Congress: It is very difficult to do, you know. We rely on the Dominion Bureau of Statistics, and they find it impossible to calculate the fringe benefits cost. We certainly do not have the statistical resources at our disposal that they have.

Mr. JOYAL: But you get copies of the contracts that are negotiated, and this information is contained in them.

Mr. FRYER: This is only one very narrow part of the whole thing.

Mr. JOYAL: It is for the people you represent, which is 30 per cent.

Mr. FRYER: What I was saying is that we could calculate on the 30 per cent but not on a national basis.

Co-Chairman Mr. BASFORD: The figures we have had from management, generally, have been relative to their own particular companies. That is a fairly easy question to answer.

Mr. FRYER: We have six thousand agreements which would require compiling figures from all six thousand.

Mr. JOYAL: I see. That would be quite a job. However, this raises another point that I am interested in. Perhaps there has been too much general emphasis on the fact that wage increases are so important in the inflationary trend that we are witnessing, but you have pointed out in your brief that the evolution in the increase in wages has been fairly parallel to that of the increase in productivity. You can only speak for those workers who are organized, however, and for those workers who are in the production end of our economy, where the productivity can be measured. What I would like to know, if you can help us on this, is what is the percentage of your salary and wage earners, where their productivity can be measured, and what would be the influence on costs, if you look at the cost on such basis, of all the thousands, or perhaps millions, of salary people or wage

earners who are in non-productive capacities, such as all service industries and, even more so, all categories of public service, whether federal, provincial or municipal? What effect would these people have had on the cost spiral?

Mr. Dodge: There is no doubt that the general trend of wages, as established by these six thousand contracts to which my colleague referred, tends to be pervasive over the whole labour force. Clearly, if people in service industries cannot meet at least a reasonable standard of wages compared to what is being earned in manufacturing, they are going to lose their workers to manufacturing. They are in a competitive squeeze; they have to pay reasonable wages, and that means that the patterns established in the 30 per cent of the labour force which we represent tend to be reflected throughout the whole labour force.

Mr. Joyal: But there would be no increase in productivity in that section.

Mr. Dodge: The figures we quoted do not refer to any specific industry. They do not refer particularly to manufacturing. They refer to a pretty general segment of industry across the whole picture, and we agreed that the rate of productivity in manufacturing is not reflected by a correspondingly high rate in the service sector. On the other hand, neither are the wage rates. The service sector of industry tends to lag very seriously behind the major basic industries in manufacturing as far as wage rates are concerned. One can assume, therefore, that the lower rate of productivity is in part responsible for the lower rate of wages, and there is a certain correlation between the two. On the other hand some of the difficulties encountered in the service sector in getting staff have resulted in a trend towards increasing automation, mechanization and the use of computers, even in this field, and the result probably is that we will see some increase in productivity and they will have corresponding reductions in unit labour costs of producing a given service. That is a pretty vague answer to a specific question.

Mr. Joyal: Would you agree there should be more work in this area by statisticians and the D.B.S. and other things like that.

Mr. Dodge: Yes, the service industries tend to be labour intensive and this is a very important factor in a given situation.

Co-Chairman Mr. Basford: Mr. Whelan.

Mr. Whelan: This question may have been answered before I arrived. I had other business in my office this morning which did not allow me to come here in time. In my question I want to refer to something that Dr. Deutsch said; he pointed out that while there is a high cost of living our productivity is not being maintained. Do you agree with that?

Mr. Dodge: I agree that productivity is an important factor in determining the cost of living, yes.

Mr. Whelan: The answer to this is obvious by what you have said, but I am going to ask the question anyway. Dr. Deutsch has said that the figures used are too old by the time they are used and that they do not mean much. Do you agree?

Mr. Dodge: It is a chronic problem. One of the most serious difficulties in attempting any type of economic planning or the development of adequate manpower and fiscal policy is the unfortunate time lag between the production of statistics and the current situation.

Mr. Whelan: Do you agree with Dr. Deutsch when he said in general—and this does not concern people on fixed incomes—that the people on wages have kept ahead of the cost of living.

Mr. Dodge: Yes, I think this is a fair statement. I think the people on fixed incomes have taken a beating, and the people who are able to tackle the problem

from a bargaining standpoint have been able to hold their own. We have noticed a growth in the real income of the workers over the period since, let us say, 1946 to the present time. I would not agree with the statement that every time we get an increase it is eaten up in price increases; we have a gain in real income.

Mr. WHELAN: Again, talking about salaried people, and Mr. MacInnis has asked questions on this point, Dr. Deutsch pointed out that these people have more or less kept it down. They are slower in moving but when they did move it was a big jump. He inferred that people on salaries more or less kept a balance with the wage earners and while sometimes they are slower to move, when they do so, the jump is bigger. Do you agree with that?

Mr. DODGE: Yes.

Co-Chairman Mr. BASFORD: You have analyzed in your brief the operation in a business cycle, and how at the beginning of a cycle you have an inflationary period, as you call it, when profits are large and then as the cycle tapers off the profits go down and wages catch up. Then you have gone on to be somewhat pessimistic about 1967. I was wondering whether the Congress favoured an increase in profits in 1967 as an indication of the renewal of the business cycle.

Mr. DODGE: Perhaps Mr. Irvine will deal with this.

Mr. IRVINE: I should say that the large swing towards profits usually takes place in a recovery and in the early stages of an expansion. And if, as some observers believe, including ourselves, 1967 may be a year of recession, and perhaps 1968 as well, the profit-earners will have to wait until late 1968 or early 1969 to receive their bonanza. I think the usual pattern is that in periods of recession, that is when we are actually on the way down the other side towards the trough, profits per unit decline during that period and labour costs after a delay do so as well.

Co-Chairman Mr. BASFORD: What policies can be invoked to avoid the need for a recovery?

Mr. IRVINE: Would you repeat that?

Co-Chairman Mr. BASFORD: You have spoken of a recovery, possibly in 1968.

Mr. IRVINE: Yes.

Co-Chairman Mr. BASFORD: What policies can be adopted to avoid the need for a recovery?

Mr. IRVINE: You mean what policies could be adopted to avoid the intervening recession?

Co-Chairman Mr. BASFORD: Yes.

Mr. IRVINE: I think in that respect we concur largely with the Economic Council of Canada. They advised the Government against any major restraining action at this time. They did not go on to say that now is the time for a major stimulus, but they did say not to add depressants. I believe the Press interpreted it as a stand pat attitude. Then, if some of the indicators we have mentioned continue to show a decline into 1967 some stimulus will have to be added, perhaps in terms of taking off the 10 per cent tax increase again or perhaps in terms of expansion of government expenditure of social capital and construction and perhaps new doses of social security. A stimulus of this kind, I think, if the indicators continue to go down, would be required to prevent a return to recession.

Co-Chairman Mr. BASFORD: Before returning to a second round, supplementary to what Mr. Allmand asked about price controls—we have had all the economists coming before us and the Economic Council and the Canadian

Manufacturers' Association and the Canadian Labour Congress all of whom seem to agree that we should not have price controls. Nevertheless, reading our mail we find a great many Canadians seem to think that price controls are a simple answer to our problems, and various protest groups call for price controls. Why is there this wide divergence between what a great many men on the street think and what a great number of economically knowledgeable people think?

Mr. DODGE: I think we will go along with the experts and the Economic Council that a general system of price controls is neither necessary nor feasible.

Mr. JOYAL: You are a component of the Economic Council and therefore you subscribe to their views.

Co-Chairman Senator CROLL: Not "therefore." He is a component and he subscribes.

Co-Chairman Mr. BASFORD: Well, if this committee does not recommend price controls, there are going to be a number of Canadians who think we are pretty stupid. How do you explain to them that we are not stupid?

Co-Chairman Senator CROLL: That would be very difficult—almost impossible!

Mr. DODGE: You would probably quote the Economic Council and the Canadian Labour Congress in support of your position. I think that we would feel that there are some measures, as I said in reply to Mrs. MacInnis, that could be taken which would have an indirect effect on the prices of particular elements in the Consumer Price Index. There are economic measures which can be used as what might be described as selective price controls. I am inclined to the belief that any attempt to impose general price controls would have an unfortunate economic effect.

In spite of arguments to the contrary, we resort a great deal to the mechanism of the market as a method of determining price, even in the field of the price of labour; and I think it would be difficult to counteract that tendency at the present time without running into trouble. I am not a qualified economist in this particular area, but perhaps Mr. Irvine could add to that answer.

Co-Chairman Mr. BASFORD: Neither am I, so I understand what you are talking about!

Mr. IRVINE: On this question of price controls, I think that that particular term conjures up a very special type of measure which we have been familiar with in this country only at times of extreme emergency and it has connotations of extreme rigidity. It is that sort of thing we are not terribly enthusiastic about.

On the other hand, the Canadian Labour Congress would support a strengthening of this country's restrictive trade practices legislation and administration. We do feel that this has been rather a toothless tiger, and if we are to direct our energies to preventing unjustified price increases, this is the appropriate mechanism which ought to be used and which ought to be strengthened.

Co-Chairman Mr. BASFORD: As you know, the Economic Council is now doing a study on that, and you will be making representations through them, no doubt.

Mr. IRVINE: Yes.

Mr. DODGE: There are all kinds of Government instruments that can be used as means of governing the level of prices in a selective way. One is the use of the tariff, for example, as a means of infusing a little more competition into the market in Canada.

Co-Chairman Mr. BASFORD: I am all in favour of that pressure, but I do not know if my co-chairman always agrees with me.

Mrs. MACINNIS: In view of the fact we have had all kinds of welfare surveys and other surveys pointing out there are groups of people who cannot afford a decent standard of living with prices the way they are now, and in view of the fact you believe that nothing can be done about fixing prices for people, then obviously the other end is the only thing open to consider. What immediate economic measures do you visualize as being useful, or what do you visualize to make it possible for these people to get a decent standard of living now or approach that standard?

Mr. DODGE: Let us select one group as an example, the old age pensioners. In the first place, we believe very strongly that the old age pension, even with the present proposals before Parliament, is going to be woefully inadequate, first of all, in terms of what an old age pensioner needs and, secondly, in terms of the contribution made in the past to the growth and development of this country, what he is entitled to. So that so far as we are concerned, we think there is a need for a strengthening of social security measures all along the line. Even with all we have done, there are tremendous gaps in the social security program of the country. We are in favour of filling those gaps and making it possible for the old age pensioners to live in decency and comfort.

We think also that as the country grows, because of more productivity and an increasing flood of consumer products on the market, the old age pensioner, even though past the stage of contributing to this productive process, is entitled to share in those benefits too, so the income they receive should be geared to increasing productivity of the country. And, of course, it is almost axiomatic that they ought to be protected from any increase in the cost of living, which is another feature of it.

Mrs. MACINNIS: Like medical care.

Mr. DODGE: This is, of course, an increasing problem as they grow older. All these things ought to be taken care of, and we are in favour of very advanced measures for taking care of these things.

Senator MCGRAND: One of the canning companies appeared before us and gave us the increases in salaries or wages from 1960 to 1965. In one group there was an increase of 32 per cent, 47 per cent, 41 per cent, 36 per cent, 35 per cent and 29 per cent. That would be an average of over 30 per cent increase in wages from 1960 to 1965. At the same time, if I remember correctly, the profits that company made on canned goods was about one-tenth of a cent per can.

What I would like to get your opinion on is: Would not that increase in the cost of wages of over 30 per cent reflect on the cost of living—something that you could not blame on the canning companies? Because a lot of those companies in the food production business are not choice stocks on the stock market. In fact, I have read at different times these people who give advice on investments advising people to stay away from some of those very stocks of companies that are being criticized for the increased cost of living, because those stocks do not offer any growth for the future.

Mr. DODGE: Well, it is very difficult to assess this type of situation. In the first place, my understanding about canneries is that they are very highly automated and highly mechanized, so that relative to the number of cans produced the number of employees may be quite small, and you could sustain the substantial increase percentagewise in the wage rates without having it reflect very markedly on the cost of producing a single can of tomato juice or soup.

Senator McGrand: Their productivity has not gone up nearly as fast as the increase in wages from 1960 to 1965.

Mr. Dodge: That may be over a short period of time. I would think that in order to radically change the method of production in a plant like that it would take a fairly long period of planning and introduction. They will be induced to make those changes if their unit labour costs tend to be high, and they will gradually convert from a plant that is a labour intensive plant to one that is less a labour intensive plant.

I do not think it is a fair measure of their profit for them to describe it in terms of one-tenth of a cent per can; it depends on how many cans they are producing. This is a rather useful gimmick nowadays, to talk in terms of profit per dollar of sales, which is a way of evading the real question of what their profits are relative to the investment. I think it is very comforting to them, in relating profits to wages, to talk about dollars of sales.

Senator McGrand: The stock is a fairly good indication of what the profits of the company are and their prospects for future profits. These companies that are criticized in the retail business, some of the big chain stores, are not attractive buys in the stockmarket and have not been and are not listed as good investments. Now, if they are making big profits their shares would be reflected on the stock market as suitable investments. It is hard for me—

Mr. Dodge: Yes, I understand. If it was real net profit that was the factor it would be reflected in the dividend payments, and so on. But, whatever may be the cause of that I would probably still say, without knowing the facts that apply to that particular firm, that in the packing industry generally and in the food processing industry unit labour costs tend to be exceedingly low. During the period of severe increases in the prices of meat products that took place in the summer time I remember seeing butchers on television saying that it was due to the strike at Canada Packers at the time. Well, that strike had not resulted in any increase in labour costs at that stage. It might have induced a scarcity of meat, which suppliers capitalized upon at the time—a sort of a panic, in fact, took place—but the fact of the matter is that a very substantial increase in the wages of the people in this industry results in an infinitesimal monetary increase in the price of the individual products on the supermarket shelves.

Co-Chairman Mr. Basford: Time is moving on, and I am anxious to move on. Perhaps the questions and the answers could be kept short.

Co-Chairman Senator Croll: Would the economists please define "profits".

Co-Chairman Mr. Basford: That is a peculiar question having regard to what I have just said. We could go on for two hours.

Co-Chairman Senator Croll: Is there no formula?

Mr. Irvine: There is no generally agreed upon formula. The profit figures cited in our brief were drawn mainly from the definitions established by the Dominion Bureau of Statistics and the Department of Finance.

Co-Chairman Senator Croll: Those I know. If you have not anything else then let us get on.

Mr. Irvine: The kind used in collective bargaining situations usually fall into two classes—return on sales and return on investment. I suppose, depending upon the particular product, one is a more valid measure than the other. We tend to take the position, I suppose, in an industry where relatively little is actually added to the product that the relevant standard is not return on sales but return on investment. But there is really no agreed-upon formula, and this question of which is the appropriate profit measure is a matter of very hot debate in collective bargaining sessions.

Mr. WHELAN: I have just one question, Mr. Chairman. If it has been asked then we do not need to go further with it. We hear a lot about immigration being a bad thing for Canada at a time of depression. We also hear from some people that immigration is a bad thing because it controls wages. Would any of the officials here from the Canadian Labour Congress care to comment on their policy towards immigration—or do you have a policy at all?

Mr. DODGE: Yes, we do have a policy. We are not opposed to immigration. We think that the necessary growth in the labour force can be brought about by bringing in immigrants over and above the natural increase in population, and this is probably necessary. We also believe that as citizens of the country we have some obligation—a social obligation—to disadvantaged peoples that can be expressed by giving them homes here. We have a sort of humanitarian approach to the question. We do think, however, that the manpower policy carried out by the government should be geared to the intake of immigrants—perhaps I should say that the intake of immigrants should be geared to the manpower policy of the country. In other words, there should be planned immigration in so far as the planning of it meets policy and humanitarian considerations.

Mr. WHELAN: Have you read the recent White Paper on Immigration?

Mr. DODGE: No, it is one of the things I have lined up to read, but have not yet got to.

Mr. WHELAN: Some of the members of parliament, no matter with what party they are affiliated, consider that the recommendations in the White Paper are too restrictive. Many of us believe that the suggestions in the White Paper should not be implemented. I do not want to go into detail in respect of it now, but it is felt that the suggestions are too restrictive.

We have talked about the price of food in Canada. Recently the Commonwealth Parliamentary Association's meeting was held here in Ottawa. Delegates from all over the Commonwealth attended. I had an opportunity of speaking to a number of these people, and they had an opportunity of checking the prices here of imported foods. They pointed out that the way of life of the people who produced these foods has not changed for the better in the last 50 years, and yet we are getting this food from these countries at a very low price, but in all cases that low price is not passed on to the consumer.

Would you be in favour of a higher tariff on imported foods if this money was going to be turned back to the countries from which these foods came so that these underprivileged people, who are not as fortunate in their way of life as we in Canada are, could be helped. Would you be in favour of turning it back to them in the form of external aid?

Mr. DODGE: That would be in the form of a special tax upon the consumers for the purpose of providing foreign aid. I would not approve of that, no.

Mr. WHELAN: But you are a union man, and you are not going to take cheap food from the producer who makes only as much in a year as some of our producers in the food industry make in a day, are you? As far as I am concerned, they are our fellow men. It does not matter whether they are in Egypt, the Far East or anywhere else—they are our fellow men. We are taking advantage of them by importing this food which is cheap because the labour costs are low because there is no labour congress to look after them. I think that this is wrong.

Mr. DODGE: I am not for increasing the tariff. I am in favour of reducing the tariff. I am not arguing that you can eliminate tariffs on a broad scale overnight, but I think that first of all the imposition of tariffs is a cost, by and large, to the consumers. Secondly, I think that the tariff is an encouragement to inefficiency in production methods in the country, and that we should move progressively towards the elimination of all tariffs as much as we can.

Mr. WHELAN: But you are not answering my question. Are we going to continue to get cheap food at the disadvantage of these underprivileged people?

Mr. DODGE: This is one way of assisting them. They will find it easier to sell their products abroad. One of their principal problems is in the finding of markets for their products on a world-wide basis. We have got to make it possible for this country to supply substantially more foreign aid than it does, but not by means of taxing the consumer by raising tariffs.

Mr. WHELAN: Do you believe that the same policy holds true for manufactured articles?

Mr. DODGE: Yes.

Mr. WHELAN: There are not tariffs to the same extent on foodstuffs as there are on many manufactured articles that come into Canada, and there are tariffs on some articles that are not even produced in Canada. I had an experience recently in respect of steel corn cribs which are imported at a differential of 8½ cents on the dollar, 22½ percent tariff, 11½ per cent federal sales tax, and 5 per cent provincial sales tax. I know of no tariffs as high as that on any article of food. You work in conjunction with the farm organizations, and they are being put out of business right and left by this type of policy. This particular item is not made in Canada, but if our manufacturing industry did not have this type of protection then many in it would be put out of business.

Mr. DODGE: My answer to that is that I am not in favour of applying those same protective tariffs to a growing list of products in the food category. I am in favour of reducing the tariffs on manufactured products.

Mr. URIE: I have just one question, Mr. Chairman, arising out of your series of questions concerning price control. Is it not a fact, Mr. Dodge, that price controls, if instituted, would have to be instituted in conjunction with other controls such as wage controls, rent controls, dividend policies, and controls on interest rates, and things of that nature? Is this not the answer—or, at least, part of the answer—that can be given to persons who are demanding that price controls be instituted?

Mr. DODGE: Yes, I think so. As a matter of fact, to turn the question around, people frequently ask us are we in favour of wage controls, and we say we are not even willing to discuss it unless you are prepared to talk about the broad range of other controls; and we say that an incomes policy—we say it in this brief relates not to wage policy or wage control, but relates to the broad range of incomes of all factors of production, the income of capital, the income of the entrepreneur, the managerial group, sometimes regarded as another factor of production; income of land in the form of rent, and income of labour in the form of wages. If people want to discuss incomes policy then we are prepared to discuss it, but only on those terms. We don't think there is much chance we can have an income policy, but we know darn well we will never accept it unless it covers the whole field.

But going back to your question, of course the people who represent capital and land have a perfect right to say the same thing to us. If we say we want price controls, they will say, all right, if you will accept wage controls.

Mr. URIE: In other words, your view, and apparently that of most economists, if not all of them, is that one policy is dependent upon other component policies in order to be effective at all?

Mr. DODGE: Yes.

Co-Chairman Mr. BASFORD: I have a supplementary. In addition to the questions we have been asking relative to price controls, suggestions have been

made in parts of the country that rather than price control we should have a price review in some form or another. Would not the same apply to a review, that it must be a review of all the components of the productive processes, or the income?

Mr. DODGE: Yes. I think there may be some type of merit in that type of approach, where there is some exposure to the public of the changes which take place in prices, rents, the profit picture, and the wage rates, by an examination of these changes by some independent authority. Something of that sort might be developed.

In recent discussion on wages in Canada there has been a good deal of question about the public interest?

Co-Chairman Senator CROLL: I thought earlier in the day, Mr. Dodge, you thought that what we are doing here is very commendable and that the exposing of this to the public should have good effect. Can you think of a substitute or a better way of doing it than we are doing now?

Mr. DODGE: Well, this is being done, you might call it, in an informal way. I think what people think of when they think of controls is of boards and commissions who do this in a formal way according to certain set rules. By exposing facts here, by the kind of questioning going on here, I think you are performing a very important service.

Co-Chairman Senator CROLL: But people have been listening to royal commissions, and what not. For the first time, we have come here by this method of coming before a parliamentary group. Can you think of any better way of reaching the people than in this informal way?

Mr. DODGE: As I have said, I think this has been very effective, and I would not like to see a more formal way. But other people are trying more formal ways. In Britain, for example, they have in operation at the present time a special board which is called a board on prices, incomes and productivity. Over a couple of years this board had dealt with 27 cases up to the time I was in England a few weeks ago. Of the 27 cases, 13 had been price cases and 14 had been wage cases. They simply examine all of the factors which have resulted in a claim on the part of a producer for a price increase, or on the part of a union for a wage increase, and they make public their findings. They have a substantial staff of economists they hire on contract basis, accountancy firms and efficiency experts, and they come to certain conclusions: one, that the price or wage increase is not justified; or two, that it is justified in part, and they say how much; or, three, that it is justified, or sometimes they say it would be justified if the union, on the one hand, or the employer, or both, were to do certain things, for example, to take certain steps to eliminate restrictive regulations of the union contract.

Now, that is what I call a formal structure for dealing with the question. It may have a good deal of merit, because it is not mandatory on any of the parties; they are not required to adhere to the findings of the board. However, it does tell the public what an independent body thinks of the actions of one side or the other in a given situation, and the public pressure upon the parties to refrain from making these changes is rather extreme.

At a time, of course, when Britain is going through a period of what they call a wage and prices standstill, the findings of this board have become mandatory, because the government makes the decision whether it will allow a price increase or a wage raise on the basis of the findings of the board. They will move now from a period of what they call a standstill to a period of severe restraint, and some of the control will be removed, and then they will move into the free and voluntary atmosphere that prevailed before July this year.

If you were to institute something like that here, that would be a formal structure as opposed to this general airing of the case which take place here.

Mr. ALLMAND: Mr. Dodge, you have said that if there were to be wage controls you would want price controls, and others. What about those industries where there are already price controls? What is your reaction to wage controls, even to compulsory arbitration procedures, in those industries, such as railways, the hydro, and other types of such industry? They have to get their prices approved, and freight rates, electricity rates, etc. must be approved by government boards already. Even under the new legislation on the new transport board that is coming before Parliament, they are going to be called to the board and could have their rates reduced. What about essential services where there is control of prices?

Mr. DODGE: Well, I think that the policy established historically in the railway and hydro industries is one which has been a matter of deliberate policy by governments, because it was recognized that these services are essential to the economic well being of the country as a whole, and that to leave the provision of these services to the market forces would be harmful.

For example, for many years, through railway operations, we have subsidized the handling of the transportation of grain, because we felt it was in the interests of the agricultural industry and in the interests of the sale of the grain at competitive prices. As labour, this caused us considerable difficulty in the railway structure because our wages were continually related to the income of the railway. We have never objected to the artificial setting of rates on the railway because we recognized that it was in the interest of the country as a whole, all sections of it, that transportation be regarded as an essential service and that transportation costs be subsidized. What we objected to was that as railway employees it was expected by the railway managements, the governments, and sometimes the citizens as a whole, that we had to bear the burden of supplying the subsidies, and we were not prepared to do that. Are we in favour of the subsidization of freight rates for farmers? I most certainly am, but I wish the farmers would recognize that the subsidy ought not to be taken out of the pockets of the railway workers.

Mr. WHELAN: May I interject to say that the subsidy was not really for the farmers but to keep the policy this nation decided upon.

Mr. DODGE: Quite true. I am not saying it was a subsidy to the farmers alone.

Mr. WHELAN: It was of help to other Canadians.

Co-Chairman Mr. BASFORD: It was a payment for that. You can argue as to whose benefit it was for.

Mr. DODGE: In the organization of certain public services, in the best interests of the economy as a whole, I think for that reason the setting of prices by boards and commissions is a perfectly valid proposition.

Mr. ALLMAND: That is already in effect by companies like the Bell Telephone, which has its rate governed by boards. If they are going to take the position that wage rates must be set on their income, there will be strikes now and then which are very disruptive to the whole economy. If you had a good board of arbitrators, would it not be better for the railway workers, if negotiations break down, if there were some type of arbitration? You have it with the prices—it is fixed, the whole thing is set by people with boards and commissions. It may be that this is too big a question to ask at this time.

Mr. DODGE: No, it is something we could talk about for weeks. To give a brief answer, you are quite right in saying that this problem resulted in a strike action. But it need not have. All it required is understanding of the propositions I expressed a moment ago. The railway unions made wage demands in the latter

part of 1965 and everybody knew, surely, at that time that even if those demands were substantially pared down, the C.N.R. at any rate would never be able to pay it out of its net revenue. But eight long months drifted by.

Mr. ALLMAND: Do you feel that the Government should have been called upon to fill up the pot?

Mr. DODGE: This is part of the cost of maintaining a national transport system. If the Government were not prepared to pay it, and we put the railways on a "as much as the traffic will bear" basis, letting them charge the wheat growing community exactly what it costs to transport wheat from the Prairies to the seaport—I think the economy will be in real trouble if we ever allow that to happen.

Senator CARTER: On page 8 of your brief you say:

> . . .managerial salaries and bonuses in Canada increased by 27 per cent (between 1961 and 1965). Over the same period average hourly wages in manufacturing increased by only 17 per cent.

Do you agree with that, or do you think there is something wrong with that?

Mr. DODGE: Does it look right to me? It looks right to me.

Senator CARTER: So you have no quarrel with management getting a little lower—

Mr. DODGE: I thought you meant, did I think the statistics were sound. I think they are sound enough. Given the condition I mentioned earlier, that you cannot get a good sales manager or chief engineer unless you are prepared to pay the going price for them, there probably is not much alternative but to pay those wages. I would be much more interested in knowing how much they get in the field of special stock options and other such fringe benefits.

Senator CARTER: When Dr. Deutsch was here, he told us—and I think it is in the report of the Economic Council—that one of the reasons for the disparity in productivity between Canada and the United States was that our managerial force was on a much lower level and did not have the experience or training which their counterparts in the United States had. Therefore, would it not be in labour's own interest to get the best managerial staff possible, if the organization of capital and production facilities plays such a big part in productivity?

Mr. DODGE: Yes.

Senator CARTER: So you would not quarrel too seriously with this disparity, as regards the increase in the managerial staff?

Mr. DODGE: No. I think it is in this area that we suffer from considerable brain drain to the United States and anything that can be done to cut that down is good.

Senator CARTER: On page 7, you say this:

> . . .trade unions cannot accept the notion that productivity should form the ceiling on wage gains. To accept this would be to accept the notion that labour's share of a rising national product should never increase;

The D.B.S. or the deputy minister of the Department of Finance produced tables which showed that from 1949 to 1965 the labour share of the pie, the gross national product, had remained practically constant—50 per cent in 1949, compared to 52 per cent in 1965. Is it not an exercise in futility to be trying to get a larger share in the pie?

Mr. DODGE: We could win, depending upon the circumstances in which we operate at a given time. The adjustment of this share is governed by the

relevant bargaining strength of the parties at a given period. Sometimes we are in a strong position and we can recover ground lost in a previous period and may be hedge a little against losses in the future.

Senator CARTER: That only applies to individual unions. I am talking about the labour force as a whole.

Mr. ALLMAND: It is salaries and wages, and not just wages. That was the problem we had before.

Mr. DODGE: We can sometimes gain some ground and sometimes perforce we lose some ground. Over a long period of time, a certain constancy in the amount of the pie that we get asserts itself.

Senator CARTER: But you have not been able to do it. Your answer applied to individuals, whereas my question applied to the labour force as a whole.

Mr. DODGE: You say we have not been able to improve our share?

Senator CARTER: Yes?

Mr. DODGE: I do not think that is true.

Senator CARTER: That is what the figure said—50 per cent.

Mr. DODGE: You have to go a long way back to discover that and it depends upon the changing strength of the trade union movement to a great extent as to whether that strength grows or diminishes. I think we have succeeded in gaining considerable ground.

Senator CARTER: Dr. Deutsch told us that one of the causes of inflation was that we endeavour to try to take out of the economy more than we put in; and you told us in your brief that, in the opinion of the congress, the economy now is on the down trend. Is it your opinion that our economy is now overloaded?

Mr. IRVINE: I do not know what you mean by overloaded.

Senator CARTER: That we are taking out more than the economy will bear.

Mr. IRVINE: I think that is a highly simplistic way of stating the problem. I am surprised that Dr. Deutsch said it in that way, because it does not convey any meaning to me.

Senator CARTER: I think that statement is in the report itself.

Mr. IRVINE: As the economy begins to slow down, it is obvious that you have a smaller annual increase in national product to be shared; but that still leaves open the question of how it is to be distributed, even if the increase to be distributed has become smaller.

It is our view that, under circumstances where the economy is slowing down, the distribution should be to the people on the lower ends of income scale rather than to others, because those on the lower end have a higher propensity to consume. They spend more out of every increase in income they get and that is what you want in periods of slow-down, so that consumer demand will be maintained.

Co-Chairman Mr. BASFORD: With the Canadian Labour Congress here, we could go on all day, because they are extremely interesting witnesses.

Mr. Dodge, on behalf of the committee, I would like to express to you and to your colleagues, and to the congress in general, our thanks for your submission today, and for your submitting yourself to questions and answer and cross-examination. We are very grateful for your help this morning.

Mr. DODGE: Thank you very much, Mr. Chairman and committee members, for the courtesies extended to us. It has been a very interesting session. We may have picked up a few ideas ourselves here for future programs.

The committee adjourned.

—Upon resuming at 3.00 p.m.

Co-Chairman Mr. BASFORD: The meeting will now come to order.

Mrs. MACINNIS: Mr. Chairman, I would like to raise a matter of some importance right now. I have spent the interval between this morning and now at the Consumer's Protest Association. This association is comprised of women from all across Canada. They have now formed themselves into a Dominion-wide group. I restrained them from coming up immediately to make representations—and they do want to be heard—by saying that I would ask if there could be a definite time provided to them.

The president of the organization would like to know if they can have a time, because she has only managed to hold the group off by telling them that she would see to it that the Steering Committee was approached for a definite date. Before they adjourn this afternoon, she wants to be able to tell them when they can hope to get a hearing. Is it a possibility for the committee to give them a hearing some time soon.

Co-Chairman Mr. BASFORD: When are they adjourning?

Mrs. MACINNIS: They will be adjourning today. They will not come near here, however, providing they can get the promise that a date in January, let us say, will be given to them so that they can come back and make their representations. That is what the president needs to know.

Reid Scott and some others were there last night, and the association has done all they were advised to do. They have not even come up here in small groups. I might say that they now have a proper organization formed, they have a brief which they would like to present, and they would like to come before this committee in the regular way. What they want to know is when they can come before this committee.

Co-Chairman Mr. BASFORD: I cannot give them a date right now off the top of my head. You will appreciate that. I think we have made it abundantly clear in the past through two statements, one that Senator Croll made and one that I made, that we wanted to hear the protest groups in the beginning of the year.

Mrs. MACINNIS: Could they be given some time late in January, or could you get it that close?

Co-Chairman Senator CROLL: It would depend upon when we come back.

Co-Chairman Mr. BASFORD: I think I am safe in saying late January, but it does depend on what the House is doing.

Mrs. MACINNIS: They have been told that.

Co-Chairman Mr. BASFORD: Subject to that, and subject to the committee, or the sub committee thereof, leaving Ottawa—and there are several conditions to this—I think I can unequivocally say that we will make arrangements to hear them and that in all probability it will be towards the end of January.

Mrs. MACINNIS: That is close enough. It is just that they wanted to make arrangements to present their brief. Also, they have all been very anxious to come up, and she has only held them at bay by telling them to keep away and that she will try to get them before the committee within a reasonable compass of time.

Mr. MANDZIUK: I think the chairman's suggestion should be acceptable to the ladies. We are ready to meet them, but we just cannot set a date. If we can leave it through Mrs. MacInnis, that we will let them know in a week or two in advance, would they be happy?

Mrs. MACINNIS: No. If the co-chairman thinks, with all these other conditions in mind, that maybe late January would be a possibility, they would be a lot happier about that than thinking it might be March or April.

Co-Chairman Senator CROLL: I think they should write into the committee and ask for a time, depending upon when the House of Commons returns. The minute the House returns I am sure we will deal with it. So there is nothing to worry about.

Mrs. MACINNIS: Then I will just inform them of that.

Mr. SCOTT: Would that be sufficient? I would hate to have them storm up Parliament Hill.

Co-Chairman Senator CROLL: Let them storm; I am going to Toronto on the train this afternoon.

Mrs. MACINNIS: You would be surprised at how many people are involved.

Co-Chairman Mr. BASFORD: I, as chairman, cannot give any more assurances than that. I think with all due respect that that position was made abundantly clear some time ago. All of the committee wanted to hear from the protest groups. I forget when I read a statement into the record. It was two or three weeks ago. I said that we wanted to hear them and that arrangements would be made and that we, as a committee, had problems of hearing certain people whom we had decided in September to hear, but that we did not in any way want to exclude them from being heard.

There are a number of problems here concerning when the House is going to sit, when some members of the committee will be having hearings other than in Ottawa, and concerning the other work of the committee.

Senator CARTER: Could we not just say that we will hear them from within two weeks after the House resumes, or something like that.

Co-Chairman Mr. BASFORD: It seems to me that what I said should be sufficient. Quite obviously, we want to hear them and will hear them and it will probably be at the end of January.

Mrs. MACINNIS: I think that is good enough. I will just go and tell them that now, and they will stick by it.

Co-Chairman Mr. BASFORD: This afternoon our witnesses are from the Department of National Health and Welfare. They are Dr. R. A. Chapman, Director General, Food and Drug Directorate, Mr. A. Hollett, Director, Bureau of Operations, and Miss E. M. Ordway, Chief, Consumer Division. Dr. Chapman will proceed with a brief statement and then we shall have questions and answers.

Dr. R. A. Chapman, Director General, Food and Drug Directorate, Department of National Health and Welfare: Thank you very much, Mr. Chairman and members of the committee. I consider it a privilege to be asked to make a statement to this committee. As Mr. Basford has indicated, I have not prepared a brief, as such, but I am very pleased to raise a number of points relating to the Food and Drugs Act as they concern consumer interests. While the Food Drugs Act, which is administered by the Food and Drug Directorate, does not provide authority to regulate economic and marketing practices or the price of foods, there are requirements, particularly in the regulations promulgated under the authority of the Food and Drugs Act, which may contribute to the cost of food products. I believe that members of the committee might also be interested in several important aspects of this legislation which are not always recognized.

The Food and Drugs Act is a consumers act intended to protect consumers against hazards to health and fraud in the sale and use of foods, drugs, cosmetics and medical devices. This has led some consumers to believe that every food, drug, cosmetic or device on the market has been approved by the Directorate and found to meet all requirements. This, of course, is not correct. It is the responsibility of the manufacturer to ensure that the product which he places on the market meets all the requirements of the Food and Drugs Act and Regulations. It is our responsibility in the Food and Drug Directorate to ensure, within the limits of our staff and facilities, that this is, in fact, the case.

I would like to go on and enumerate a number of the sections of the Act itself dealing specifically with foods. Section 4 of the Act states that—

> 4. No person shall sell any article of food that
>
> (a) has in or upon it any poisonous or harmful substance;
>
> (b) is unfit for human consumption;
>
> (c) consists in whole or in part of any filthy, putrid, disgusting, rotten, decomposed or diseased animal or vegetable substance;
>
> (d) is adulterated; or
>
> (e) was manufactured, prepared, preserved, packaged or stored under unsanitary conditions.

There is a further section that states:

> 5. (1) No person shall label, package, treat, process, sell or advertise any food in a manner that is false, misleading or deceptive or is likely to create an erroneous impression regarding its character, value, quantity, composition, merit or safety.

Then there is a further section, Section 7 that requires that—

> 7. No person shall manufacture, prepare, preserve, package or store for sale any food under unsanitary conditions.

This was a section added in the 1953 revision of the Food and Drugs Act.

You will note that none of these sections or in fact any section of the Act provide authority to regulate the price of foods.

Authority is also provided in the Act to make regulations dealing with foods, and section 24 states—

> 24. (1) The Governor in Council may make regulations for carrying the purposes and provisions of this Act into effect, and, in particular, but not so as to restrict the generality of the foregoing, may make regulations—

I won't enumerate these in detail but he can declare any food is adulterated if any prescribed substance or class of substances is present therein as has been added thereto or extracted or omitted therefrom. He may make regulations respecting labelling and packaging of foods.

Mr. Scott (*Danforth*): The Governor in Council may do this?

Dr. CHAPMAN: Yes. These include the size, dimensions, fill and other specifications of packages of food, drugs, cosmetics and devices; the sale or the condition of sale of any food, drug, cosmetic or device; and the use of any substance as an ingredient in any food, drug, cosmetic or device; to prevent the consumer or purchaser thereof from being deceived or misled as to its quantity, character, value, composition, merit or safety or to prevent injury to the health of the consumer or purchaser.

Those words are very important because although we can make regulations relating to labelling and packaging, they must be related to the prevention of hazards to health or fraud.

There is a considerable list of other areas over which we have similar authority.

Mr. SCOTT (*Danforth*): Can you file it on the record if you don't want to read it in.

Dr. CHAPMAN: This is Section 24, subsection 1 of the Food and Drugs Act.

Co-Chairman Mr. BASFORD: We can have your full statement appended to the record if that is agreeable.

Dr. CHAPMAN: That is quite agreeable. Under the regulations which have been promulgated there are very definite requirements regarding labelling of foods. The general regulations to which there are certain exceptions read as follows, and to keep the record straight I shall give the numbers of these sections:

B.01.003—no person shall sell a food unless a label has been applied to the food.

B.01.004. The label applied to a food shall carry

(a) on the main panel
  (i) the brand or trade name if any,
  (ii) the common name of the food, and
  (iii) in close proximity to the common name, a correct declaration of the net contents in terms of weight, volume or number in accordance with the usual practice in describing the food;

(b) grouped together on any panel
  (i) a declaration by name of any Class II, Class III or Class IV preservative in the food,
  (ii) a declaration of any food colour added to the food,
  (iii) a declaration of any artificial or imitation flavouring preparation added to a food other than a food listed in section B.01.026,
  (iv) in the case of a food consisting of more than one ingredient and complete list of the ingredients by their acceptable common names in descending order of their proportions, unless the quantity of each ingredient is stated in terms of percentage or proportionate composition, and
  (v) any other statement required by these Regulations to be defor which no standard is prescribed in these Regulations, a clared; and

(c) on any panel, the name and address of the manufacturer of the food.

We have also specified how this information should be portrayed on the label.

B.01.006. All information required by these Regulations to be carried on a label shall be

(a) clearly and prominently displayed thereon, and

(b) readily discernible to the purchaser or consumer under the customary conditions of purchase and use.

B.01.007. For the purposes of paragraph (a) of section B.01.006,

(a) a common name consisting of more than one word shall be deemed to be clearly and prominently displayed on the main panel of the label if each word, other than articles, conjunctions or prepositions, is in identical type and identically displayed;

This is to prevent the playing down a word that might be considered detrimental or playing up a word a food manufacturer might consider would enhance his product. And—

(b) a declaration of net contents, including each numeral in any indicated fraction, on a package of food shall be deemed to be clearly and prominently displayed thereon if it is in boldface type and not less than
  (i) one-sixteenth of an inch in height on packages the main panel of the label of which has an area of twenty square inches or less,

(ii) one-eighth of an inch in height on packages the main panel of the label of which has an area of more than twenty but not more than forty square inches,

(iii) one-quarter of an inch in height on packages the main panel of the label of which has an area of more than forty but not more than one hundred square inches, and

(iv) three-eighths of an inch in height on packages the main panel of the label of which has an area of more than one hundred square inches.

There are certain exceptions from the Regulations, and again I do not propose to go into detail at this point. Some of the exceptions to these general labelling regulations are the following:

B.01.008. Notwithstanding subparagraph (iii) of paragraph (a) of section B.01.004, a declaration of net contents is not required on

(a) a package of food the weight of which, including the package, is less than two ounces; or

(b) fluid dairy products in glass or plastic containers of one-half pint, one pint, one quart, one-half gallon, three-quart or one-gallon capacity.

Mr. ALLMAND: Would it be possible for us to have these regulations delivered to us within a short period of time, so we may better follow this? Can somebody be sent out and get them for us, say within ten minutes or so? Are they that voluminous?

Co-Chairman Mr. BASFORD: They are right here.

Mr. ALLMAND: Oh, I see, they are voluminous.

Dr. CHAPMAN: This is the document, and this was the reason I had to select these areas for you in order that you would be able to pick them out, because it just would not be possible, I think, for a person not familiar with these to find the various sections.

Mr. ALLMAND: I thought they were in more simplified form and that we could get them and follow you more easily. If we cannot do that, that is all right.

Co-Chairman Mr. BASFORD: However, could you supply these to any member who may ask for them?

Dr. CHAPMAN: Yes.

Mr. ALLMAND: I think I would like them.

Dr. CHAPMAN: We certainly could and would be pleased to do so.

I indicated there were certain exceptions. One of these is for the declaration of food colour, where it did not seem essential for these to be declared—such as confectionery, ice cream, icing sugar, sherbets, soft drinks, and products of this type. A list of ingredients is not required on the label of certain products —bakery products, confectionery, flavouring preparations, gelatine desserts and similar materials.

I probably should emphasize that in general standardized foods—and we have established standards for approximately 280 to 290 foods—are not required to carry a list of ingredients, while unstandardized foods are required to declare the ingredients on the label. Examples of standardized foods are: milk, butter, ice cream, shortening, tomato catsup, apple juice, jam, bread, sausage and sugar. Examples of unstandardized foods are: margarine, certain dessert powders, soups, soft drinks and confectionery.

The only reference to packaging materials in the Food and Drug Regulations is in Section B.15.001, that requires that:

> B.15.001 No person shall sell any food in a container that may yield to its contents any substance that may be injurious to the health of a consumer of the food.

Hence, as far as the Food and Drug Regulations are concerned, the food manufacturer is not restricted in any way to the choice of packaging materials, provided that no harmful substance migrates from it into the food.

The only requirement in the Food and Drug Regulations regarding container sizes, where the actual size is specified, is to be found in Section B.08.073, which reads, in part, as follows:

> B.08.073 No person shall sell ice milk except in a container that is labelled as required by these Regulations and has a capacity of
>
> (a) less than 10 fluid ounces;
>
> (b) 1 pint;
>
> (c) 1 quart;
>
> (d) 3 pints; or
>
> (e) 2 quarts.

The purpose of this requirement was to ensure that ice milk would not be packed in bulk containers from which ice cream cones are dispensed, and thereby the purchaser of the ice cream cone might be misled. Furthermore, there were requirements under the Canada Dairy Products Act for standardized containers for ice cream, and therefore it seemed desirable that there should also be standard containers for ice milk. We felt in this case there was the definite possibility of deception or fraud occurring and, therefore, we considered it was within our authority to establish such regulations.

With the increasing use of food chemicals, which are frequently referred to as food additives, in our food supply, food additive legislation was incorporated into the Food and Drug Regulations in 1964, where we indicate the definition of a food additive and the regulations that must be met before a food additive can be listed in the tables provided. A complete list of acceptable food additives is given. These food additive tables provide the name of the compound, the foods in which it is permitted, and the maximum level of use. For those who have the regulations these are to be found in Section B.16.

I think there is one important aspect of the Food and Drug Regulations that I should emphasize, and that is the fact that the Food and Drugs Act has been held to be criminal law legislation which, under section 91 of the British North America Act is a federal responsibility.

The criminal law basis for the Food and Drugs Act is its purpose in protecting the public from injury to health or from fraud in the manufacture and sale of foods, drugs, cosmetics and medical devices. Regulations under the act must therefore be related directly or indirectly to either of these objectives —that is, the prevention of fraud, or to protect the public from hazards to health.

As criminal law, it applies equally in all parts of Canada and is, therefore, not subject to any requirement of interprovincial trade, as is the case in certain other federal statutes.

There is a second possible basis on which a Food and Drugs Act could rest as a federal statute. This would be the heading in Section 91 of the British North America Act "Regulation of Trade and Commerce." It is under this heading that a number of the agricultural statutes rest. These statutes apply only in respect

of goods which are subject to the act when moving in interprovincial or international trade. The coverage under such a statute is therefore less complete than would be the case of a criminal law statute which has application everywhere in the country. This, of course, is the situation in regard to the Food and Drugs Act. In some respects the criminal law enactment is more limited in scope in that it must be related to the prevention of fraud or injury to health, whereas an act under the heading "Regulation of Trade and Commerce" can be purely regulatory of those matters which are within its scope. To illustrate, there are limitations n the Food and Drugs Act in terms of regulating the precise size of containers or the size of type on labels. Such regulations would need to be related to the prevention of fraud and not only to administrative convenience or even to the consumers' convenience.

On balance, we have felt that the administration of the Food and Drugs Act has not been hampered by any restrictions imposed through it being a criminal law enactment and the fact that it has nation-wide application would, in our view, outweigh any possible advantage of an act that was purely regulatory in its purpose.

The question has arisen as to whether the Food and Drugs Act could not be a combination of the criminal law and the regulation of trade and commerce. Our legal division, while recognizing the possibility of this device, have felt it to be unnecessary and, moreover, not as satisfactory as a single legal basis for the act. In other words, if the act rested on a dual foundation, its basis could be challenged and it would be necessary to argue on which authority a particular provision of the act was based.

From the foregoing it is possible, in my opinion, to draw these conclusions:

1. It is essential to maintain the Food and Drugs Act as criminal law in order that the act may apply to all foods, drugs, cosmetics and medical devices sold anywhere in Canada;

2. The fact that the Food and Drugs Act is criminal law does limit the scope of the act to the protection of the public from injury to health or fraud; and

3. It would be unwise to attempt to broaden the scope of the act to include the regulation of trade and commerce, since this would undoubtedly weaken the capability of the present act to protect the consumer against hazards to health and deliberate attempts to mislead or deceive the consumer.

Mr. Chairman, I should like to terminate my remarks at that point.

Co-Chairman Mr. BASFORD: Thank you very much, Dr. Chapman. Mr. Scott?

Mr. SCOTT (*Danforth*): I have a few questions, Dr. Chapman, upon which I am very anxious to hear you. I should like to explore with you the legislation, and ask what your view would be as to whether or not we have powers to regulate some of the things that have come before the committee, and if so, what the authority might be. You have told us that the Food and Drugs Act is criminal law in nature, and it creates great problems, I think. If we can handle all this multiplicity and confusion in respect of the sizing of things like toothpaste and detergents, have we any legislative authority to impose standard weights and measures?

Dr. CHAPMAN: Detergents, of course, do not come within the authority of the Food and Drugs Act.

Mr. SCOTT (*Danforth*): Do they come within the authority of anything else?

Dr. CHAPMAN: Not to my knowledge.

Mr. Scott (*Danforth*): At the federal level there is no authority at all?

Dr. Chapman: This is my understanding.

Mr. Allmand: Could the act be amended to cover them, in your opinion?

Dr. Chapman: The Food and Drugs Act?

Mr. Scott (*Danforth*): No, not the Food and Drugs Act. I think if you are going to keep the Food and Drugs Act criminal law in nature then you are stuck with fraud and its proof within the criminal code. Let us accept that for a moment. Are there any other regulations or laws in respect of which the committee, if it saw fit, could recommend legislation to wipe out this crazy pattern of weights and measures that are in our supermarkets?

Dr. Chapman: There is a Weights and Measures Act, and there is a Canada Agricultural Products Standards Act. Certainly this latter Act is considered to be an act regulating trade and commerce, but I would not be in a position to say whether or not that act could be amended to cover the sort of thing you suggest.

Mr. Scott (*Danforth*): In your opinion, if these acts are deficient, have we the legislative right to pass such acts, or are you able to give us an opinion on that?

Dr. Chapman: No, I am not. My background is in chemistry and, therefore since this is really a legal opinion you are asking for, and I am not in a position to give an opinion.

Mr. Scott (*Danforth*): One of the complaints is with respect to these cents off deals. Do you know if we could prohibit them under these regulations?

Dr. Chapman: Not under the Food and Drugs Act.

Mr. Scott (*Danforth*): Nor under any act with which you are familiar.

Dr. Chapman: Again, this is a legal opinion you are asking of me, and, unfortunately, I am not in a position to answer you.

Mr. Scott (*Danforth*): What about things like—

Co-Chairman Mr. Basford: Excuse me. You asked about cents off, Mr. Scott?

Mr. Scott (*Danforth*): Yes.

Co-Chairman Mr. Basford: You would not consider those as fraud, would you? They might be misleading, but not fraud.

Dr. Chapman: We would not consider this to be a deliberate fraud that would come within the scope of the criminal law legislation.

Mr. Scott (*Danforth*): Why is it not a fraud? It is a fraud, in my opinion. They are deliberately misleading the public, in my judgment. Why do you not feel that is a fraud within the meaning of the act?

Dr. Chapman: Since the Food and Drugs Act is criminal law a person, of course, is considered innocent until proved guilty, and we have to have a very strong case before a court will convict a person of a criminal offence. This is a criminal offence, and if convicted a person then has a criminal record. I am sure that we would have great difficulty with respect to this, and I do not think that officers of the Department of Justice, based on former rulings, would consider this fraud under criminal law.

Mr. Scott (*Danforth*): Have you been able to successfully prosecute any of the executives or directors of a limited company under this provision?

Dr. Chapman: Under—

Mr. Scott (*Danforth*): That is, using your fraud provisions?

Dr. CHAPMAN: Yes, we have. I might say that in many, many instances we have been able to persuade companies, by using an educational approach, to change the labelling and packaging of their products, but we have taken action under section 5(1) of the Act. We have been successful in one case involving plastic bags completely covered with red lines that were used to package carrots.

Mr. SCOTT (*Danforth*): To package what?

Dr. CHAPMAN: Carrots.

Mr. SCOTT (*Danforth*): Oh, yes.

Dr. CHAPMAN: This obviously gave a false impression of the quality of the product. This was upheld in court.

Another case involved a package of chocolate milk buds. The package was considered to be slack filled. We took this firm to court and we were successful. I have that particular package with me. I think you would agree that this was quite deliberate. It is just a small package which contained mild buds. The deception was in the ends. There is a double flap, and when you put this into the package it curls around and cuts off about that much of the package. It has this flap at both ends. The result is that the package is actually about that size (*indicating*). We found that the package was only about 50 per cent filled.

Mr. SCOTT (*Danforth*): Could we regulate in the field of the amount of quantity in boxes with respect to goods, and that sort of thing?

Dr. CHAPMAN: We consider that there has been only one situation where this was warranted up to the present time, and this was in the case of ice milk where we felt we had to specify the size of the package, otherwise there would be definitely fraud involved. This is the only case.

Mrs. MACINNIS: I have another example here, if I may bring it up now. This came from a woman who sent me two Dad's Cookies which she had purchased a week apart. She was afraid they might get broken so she sent me also tracing to prove her point. Obviously these cookies are of different sizes. They are packed a dozen to a package. They are not sold by weight. The Dad's Cookies people themselves said that they are not sold by weight. What is concerning me is that here is a sealed package in which there is a dozen cookies, but the purchaser cannot see what the cookies look like, and there is *this* much difference in the sizes. They are not sold by weight, and you cannot see what you are getting. First, is that an honest situation?

Dr. CHAPMAN: No. We have been concerned about this too, and we have actually established a policy. I would like to ask Mr. Hollett to explain exactly what that policy is.

Mr. Andrew Hollett, Director, Bureau of Operations, Food and Drug Directorate, Department of National Health and Welfare: This particular instance has been brought to our attention—not recently, but some years ago. There can be an argument put forth concerning the packaging, that in the interests of ensuring that the cookies are not broken there is a great deal of inside packaging necessary. Now, we are not quite satisfied that this type of package does give the consumer the information that he or she requires. With this in mind we advised the cookie industry or the bakery industry some months ago that we would require the weight on a package of cookies.

Up to that time the regulations had read, "Weight, number or volume," as is the usual practice. For years some manufacturers have been using weight or number for cookies. The trend has been toward a declaration by

weight, which you will agree is more meaningful and more informative. Now we have been requesting manufacturers to give the declaration of net contents by weight rather than by number. Within a very limited time we shall take the stand that the usual practice is by weight and not by number, and I am sure that in due course we will correct this situation.

Mrs. MacInnis: You are taking a number of steps to correct it?

Mr. Hollett: Right.

Dr. Chapman: And this applies to the manufacture of biscuits as well.

Mr. Scott (*Danforth*): Take the case of liquor and wines and the tremendous variation in alcoholic content. Have we no authority to compel the manufacturers to label the ingredients? Surely the customer should be enabled to know what the ingredients are?

Dr. Chapman: These products are practically all standardized products. The alcoholic content is set. They must meet a certain minimum requirement, and therefore the consumer has not actually been misled.

Mr. Scott (*Danforth*): But certainly he does not know what is in them.

Dr. Chapman: Well, do you think it would be helpful to have all the rye whiskies labelled with the same amount of alcohol? Because they are almost identical.

Mr. Scott (*Danforth*): They vary considerably.

Dr. Chapman: For all practical purposes they are the same.

Mr. Scott (*Danforth*): Before we pass on to something else, you were telling us about section 24(1), where the Governor in Council can make recommendations regarding packaging, ingredients etc., to prevent the public from being deceived or misled.

Dr. Chapman: Yes.

Mr. Scott (*Danforth*): Do you mean the Governor in Council now has authority to do all this?

Dr. Chapman: Yes.

Mr. Scott (*Danforth*): Why could they not add that to that section a provision to deal with the type of things we have been complaining about here in this committee?

Dr. Chapman: The heading of that section reads, "The Governor in Council may make regulations for carrying the purposes and provisions of this act into effect." Now, this is considered to be criminal law legislation and therefore it is only in the area of deliberate fraud and hazard to health in which the Governor in Council can make these regulations.

Mr. Scott (*Danforth*): So from what you have told us there is no effective legislation now on the books to permit us to do the type of things we may want to do?

Dr. Chapman: Well, I am not sure just exactly what you had in mind. If you are referring to legislation which would prohibit the use of statements such as "cents off," I would say no, this cannot be done under the Food and Drugs Act.

Mr. Scott (*Danforth*): I am speaking aboout other things, like standardization of amounts, for instance, of things like detergent, tooth paste, so that they come packaged in meaningful sizes so that the consumer can know what she is buying.

Dr. CHAPMAN: No, it is not considered that we have such authority under the Food and Drugs Act.

Mr. SCOTT (*Danforth*): For example, we cannot compel clear markings, so that you can go into a store and buy Vel detergent and know what you are getting without being blind.

Dr. CHAPMAN: That does not come within the scope of the Food and Drugs Act. We do have requirements in relation to foods, and I think these regulations are as good as regulations anywhere in the world. The requirement of the net contents shall be in close proximity to the common name. In this particular package I am holding in my hand, which reads, net weight eight ounces, certainly there is no difficulty in seeing the net contents. Then this Dream Whip is two ounces. Under customary use I think you could see this without any difficulty.

Mr. SCOTT (*Danforth*): For any one of those products, could we pass laws to have them in packages of eight, 16, 24 and 32 ounces?

Dr. CHAPMAN: Not unless it could be shown that unless they are packaged in those sizes this would deceive the consumer, and I do not believe that this could be done under the Food and Drugs Act.

Mr. SCOTT (*Danforth*): So we are powerless at the moment to get into those areas?

Dr. CHAPMAN: Into those areas under the Food and Drugs Act, yes. However, this is only my opinion, Mr. Chairman.

Mr. O'KEEFE: My question is in connection with items injurious or hazardous to health. As you know, better than I do, there are thousands, and perhaps hundreds of thousands of people in Canada suffering from allergies, and I believe a common one is from milk. There are food items in packages which do not include a list of the ingredients on the package. Can this be done? Surely any manufacturer who can put items in a package can be compelled to put a list of the ingredients on the package?

Dr. CHAPMAN: Yes, we believe this could be done, and as I have assured you before we have this matter under consideration.

Mr. O'KEEFE: No action has been taken. Perhaps I am wrong in saying there has been no action taken.

Dr. CHAPMAN: Well, I have met with the executive of Allergy Information and have discussed the problem in detail with them. I have had a number of letters from them. We have been corresponding for the past two or three months. We have had conversations and discussions with other government departments, because in this area both the Department of Agriculture and the Department of Fisheries are concerned. I can assure you that we do recognize this as a problem and we are trying to do something about it. However, I should also point out that even the specialists in this field are undecided as to exactly what is the best method of listing the ingredients of foods in order that persons suffering from the food allergy can avoid any foods which might be disastrous for them.

Mr. O'KEEFE: Surely there can be no confusion about the fact that a list of the ingredients ought to be stated. That seems to be very simple in the case of one allergy, and I am sure there are thousands of them. Why cannot milk be listed as to ingredients in all the packages?

Dr. CHAPMAN: We would have the authority, I believe, to do this, but just to require a declaration of dairy products, for example and to ignore other areas where allergies are equally important, is another thing.

Mr. O'KEEFE: But you must agree that there has to be a beginning, and there has been no beginning, to my knowledge.

Dr. CHAPMAN: We feel the beginning should be made, for example, by cutting down on the list of foods for which there are exemptions now provided in the food and drug regulations. Soups, I believe, are such a type of product, bakery products another. We have been working with the baking industry, and approximately 50 per cent of bakery products now contain a complete list of ingredients, although this is not required. We have been looking into the question of the soups to see if a similar list of ingredients could not be used there.

We have to be very careful, however, in examining such list of ingredients that we make sure these are declared in such a way that they are meaningful to the person suffering from the food allergy. For instance, if you simply refer to a filler in meat products, these fillers can be made from cereal grains or from a dairy product, and therefore it would be absolutely essential that you declared not only the ingredients of the meat product, listing one of the ingredients as a filler, but also to name the ingredients in the filler.

Mr. O'KEEFE: I see the problem, sir. What about the area of cosmetics? That is a pretty wide area.

Dr. CHAPMAN: It certainly is.

Mr. O'KEEFE: Have you examined anything in connection with cosmetics as to things that are absolutely injurious if not hazardous to health?

Dr. CHAPMAN: We certainly do examine cosmetics. We have taken action in a number of cases and we require warning statements for a number of the ingredients. We do find that, out of thousands of people, there is one individual who is sensitive to a particular chemical in a cosmetic. I do not know how you could avoid this sort of situation. It may be a chemical that is present even in the perfume, and this perfume may be made up of 20 or 30 chemical compounds.

Mr. O'KEEFE: Do you give the person a list of cosmetics that he or she should avoid? Surely that should be listed on the container.

Dr. CHAPMAN: The person would have to know which of those particular ingredients he was sensitive to, before this would do any good.

Mr. O'KEEFE: When they know?

Dr. CHAPMAN: Cosmetics would present a terrific problem because they contain so many different chemical substances and to list these by their chemical names—I do not know whether this would solve the problem or not.

Mr. O'KEEFE: Anyway, the problem is being considered carefully. I will not press it any further.

Dr. CHAPMAN: We are watching for these all the time and whenever we get a report of an allergic reaction to a chemical it is very carefully investigated.

Mr. O'KEEFE: Thank you, doctor.

Mr. ALLMAND: Dr. Chapman, you said that the Food and Drugs Act had been tested constitutionally and had been found *intra vires* the federal Government as being a statute which was considered as criminal law.

Dr. CHAPMAN: I do not think I said that.

Mr. ALLMAND: What I mean is, you certainly implied it.

Dr. CHAPMAN: Yes, I implied it.

Mr. ALLMAND: Is there a decision on the Food and Drugs Act?

Dr. CHAPMAN: Yes.

Mr. ALLMAND: Do you know what it is? If not, I will look it up.

Dr. CHAPMAN: I cannot tell you exactly, but it was in British Columbia a number of years ago.

Mr. ALLMAND: You say that under the Food and Drugs Act you cannot make regulations with respect to detergents. Can you make regulations with respect to fabrics?

Dr. CHAPMAN: No. It deals with food, drugs, cosmetics and medical devices only.

Mr. ALLMAND: When you say you cannot make regulations with respect to these other things, I think it is because the act specifically in Section 3 says "Food, drug, cosmetic or device." I as a lawyer cannot see any reason why this act could not be amended to include detergents, toothpaste, cereal and so forth so that the same coverage that you had in section 5 with respect to fraudulent and misleading and deceptive advertising, could apply to these. For instance, you sell a package of chocolate and you said you had a conviction on that, because there was a space left at either end?

Dr. CHAPMAN: Yes.

Mr. ALLMAND: If you could have a regulation under the Food and Drugs Act that would prevent fraud in packaging of chocolates I cannot see why this act cannot be amended, still under the criminal law, under some principles to include detergents, fabrics and so forth. Do you know if any legal opinion has been given on this?

Dr. CHAPMAN: No.

Mr. ALLMAND: On the second page of your brief, you say "Advertising any food, drug, cosmetic, device" and I do not see why you could not say "detergents, cereals" and then also list a number of other products to be added to the four you already have. Have you ever asked for legal opinions?

Dr. CHAPMAN: No, we have not, not to my knowledge.

Mr. ALLMAND: I would intend to ask for one, because I think it can be amended to include these things. Would you say this is criminal law or is considered as criminal law? Does this mean that in taking an action under this act you have to prove "beyond reasonable doubt" that the defendant has violated the sections of this code; or do you have just to make the "preponderance of proof" as against other actions?

Dr. CHAPMAN: I think, sir, you would be in a much better position to comment on that question.

Mr. ALLMAND: I know that under the Criminal Code you have to prove "beyond reasonable doubt". Does the Canada Evidence Act apply to this?

Dr. CHAPMAN: My opinion is that this legislation is similar to the Criminal Code.

Co-Chairman Mr. BASFORD: And the same things would apply, I would think.

Mr. ALLMAND: I would think so. What is the name of the section in the Food and Drug Department?

Dr. CHAPMAN: The Department of National Health and Welfare, Food and Drug Directorate.

Mr. ALLMAND: Do you have a sub-branch which receives complaints from consumers with respect to the provisions of this act? In other words, if the lady who wrote to Mrs. MacInnis wished to complain about these cookies she bought, where she thought there was deceptive advertising, where she could write to or whom could she contact?

Dr. CHAPMAN: She could write to any one of our five regional headquarters across Canada, to any of our 24 district offices, or to our headquarters here in

Ottawa. We have a Consumers Division which has been set up just for this purpose, to obtain information from consumers as to complaints that they may have or gaps in our legislation.

Mr. ALLMAND: When they complain, does somebody in your department investigate and if enough evidence is there, do they lay a complaint? Do they investigate for the complainant and lay the complaint, or does the complainant herself have to lay the complaint?

Dr. CHAPMAN: We investigate. If we find there has been any violation of the Food and Drug Act we take the necessary action.

Mr. ALLMAND: About how many complaints would you have in a year? Have you any idea?

Dr. CHAPMAN: Miss E. M. Ordway, who is head of our Consumer Division, is in the audience and I might ask her to speak on that. I might explain that Miss Ordway's division, the Consumers' Division, is a staff group advising me on all matters relating to consumers. The actual answering of complaints, the letters and the investigation, is carried out in our Bureau of Operations where they have the inspectors who can carry out this investigation. I think, Miss Ordway, you might give us an indication of the number of complaints received.

Mr. ALLMAND: The average per year.

Miss Ellen M. Ordway, Chief Consumer Division, Department of National Health and Welfare: The last report that we did in the consumer division showed there were 1,700 complaints.

Mr. ALLMAND: Per year, or the total to date?

Miss ORDWAY: For the year.

Mr. ALLMAND: About how many legal actions would result from that 1,700 complaints?

Miss ORDWAY: I am sorry, sir, I cannot answer that without the report in front of me.

Mr. ALLMAND: Approximately, a general idea?

Dr. CHAPMAN: I can tell you that the total number of prosecutions which were completed in 1965 was 100.

Mr. ALLMAND: How many do you have on the staff of the consumer division, Miss Ordway?

Miss ORDWAY: We have twelve.

Mr. ALLMAND: Do you feel that is enough people to handle all these complaints that you get?

Miss ORDWAY: No, it would never be enough.

Mr. ALLMAND: How many offices do you have across Canada?

Miss ORDWAY: We do no not have offices across Canada. We have a consumer consultant in three of our regions—one in Toronto, one in Vancouver, one in Halifax. That is, a person who is attached to the regional establishment.

Mr. ALLMAND: Don't you think that if this bureau were to do a proper job for the consumer, there should be offices in many major centres across Canada, many more than there are now?

Miss ORDWAY: I think our Director-General could answer this. I am not in a position to do so.

Dr. CHAPMAN: We have regional headquarters that can handle those complaints in Halifax, Montreal, Toronto, Winnipeg and Vancouver. Then we have, in addition to these, 24 district offices in major cities. Any of those can handle the consumer complaints and consumers are encouraged to contact these offices.

Mr. ALLMAND: How are they encouraged? I have never seen any advertisements or anything like that.

Mr. SCOTT (*Danforth*): This has all been a big, dark secret. This is the first time we have heard of it. Do you not advertise to tell the country that you can help them. Do you not say: "Here we come, and we want to help you."?

Mr. ALLMAND: How do you let them know how they are to bring forward complaints about deceptions in the advertising of food, drugs, cosmetics, et cetera?

Miss ORDWAY: We have a booklet called "The Consumer's Handbook". In this booklet we have devoted a section to consumer complaints, encouraging the consumer to come to us with problems pertaining to food, drugs, cosmetics; how to register their complaint; and the procedure that she should go through. This has been distributed fairly widely, though not extensively throughout Canada because our budget is limited. We have also printed other publications telling the consumer that we have a section, and this is the purpose of our consumer division.

Mr. SALTZMAN: I have a supplementary question, Mr. Chairman.

Co-Chairman Mr. BASFORD: Perhaps Mr. Allmand could finish his question first.

Mr. SALTZMAN: This is directly related to his question. In view of the many millions of dollars being spent on advertising in Canada, how much money has your department spent on informing the consumer directly?

Miss ORDWAY: About $18,000.

Mr. SALTZMAN: About $18,000 is your total budget for advertising?

Miss ORDWAY: For publications, yes.

Mr. SALTZMAN: Do you do any other advertising besides publications?

Miss ORDWAY: I have speaking engagements and I attend meetings. I travel a great deal across Canada.

Mr. SALTZMAN: This is the total amount of money that is allocated to that particular function?

Miss ORDWAY: That is my total.

Dr. CHAPMAN: This was the amount allocated during this fiscal year. It might help the committee members, if I indicate just briefly the functions and responsiblities of our consumer division. The function of the consumer division is to plan, organize and direct a programme of consumer education to help achieve the full objectives of the Food and Drugs Act. It is to plan, organize and direct a programme to ensure a flow of information from consumers through consumer surveys and contacts with consumer groups to the Directorate. It is to determine consumer needs and gaps in consumer protection and to recommend necessary action, and so on.

Mr. ALLMAND: Further on this line, when witnesses from the Department of Agriculture were here, they told us that they also had a consumer division. I was going to ask you if you found that there was any overlapping or confusion resulting from the fact that the Department of Agiculture had certain jurisdiction in the regulation of foods through grading, canning and so forth, and that you have certain jurisdiction and that the Department of Fisheries has and the

Registrar General has. Do you find that you have much contact with these other consumer divisions? For example, the one in Agriculture. Do you find this division between departments disruptive?

Dr. CHAPMAN: No. I would certainly say that there is no problem. There are two areas here. First of all, there is the area of shared responsibility—

Mr. ALLMAND: With the Department of Agriculture.

Dr. CHAPMAN: With the Department of Agriculture and the Department of Fisheries over various food products, meat products, dairy products and fish products. We work very closely with these departments. I do not think that there is any problem.

Obviously, in a meat packing plant, where the Department of Agriculture has a resident inspector, we consider that plant properly inspected and, therefore, do not devote our inspector's time to that particular plant.

In regard to the consumer division, I think the emphasis is rather different from these other departments. It would appear to me that one of the activities at least of the consumer division in the Department of Agriculture or the Department of Fisheries is to promote the sale of the agricultural products or fishery products to the consumer. In the Food and Drug Directorate, of course, we have nothing to promote. We are concerned with protecting the consumer from the possibility of hazard to health or fraud.

Mr. ALLMAND: The people from the Department of Agriculture told us that they also try to make sure that there is enough peach in the can with respect to juice, and they grade products according to fancy and choice quality and so on, so that they, too, are actually trying to do something to protect the consumer.

Dr. CHAPMAN: Yes, this is quite correct. This would not be in the consumer division, but it would be in the division responsible for the grading of canned fruits and vegetables.

Miss ORDWAY: I think it is right to say that there is some confusion in the minds of the consumers regarding this overlapping jurisdiction.

Mr. ALLMAND: I would certainly say so.

Miss ORDWAY: I often get requests regarding marketing.

Mr. ALLMAND: Do you refer them to the other side?

Miss ORDWAY: Yes. I also get letters regarding grades. The other departments get letters and requests also, but they do not get as many as we do.

Mr. ALLMAND: I have just one final question. As a sufferer from allergies, I have a long list to keep my eye on at all times. There are more things involved than just food. For instance, I am allergic to certain fabrics. There are many synthetic fabrics on the market today, and it is necessary to know what products are contained in a particular fabric in order to know if you can put it next to your skin. This is true not only of fabrics but of such articles as pillows, for example. There are many types of articles that have allergenic substances in them. I know that you cannot handle them now, because you are not allowed to handle things that are not foods, drugs and cosmetics, but I think you should be able to and you should be able to do what Mr. O'Keefe suggested with respect to cosmetics.

I am allergic to orris root, which is the basic substance in cosmetics. Whenever I have a date with a girl who wears orris root in her cosmetics, I have to ask her to take it off, if I am going to dance cheek to cheek.

Co-Chairman Mr. BASFORD: Take what off?

Mr. ALLMAND: And I would have to supply her with a non-allergic cosmetic for the evening.

Mr. SCOTT: (*Danforth*): Otherwise you might end up with a striptease.

Mr. ALLMAND: It is extremely important to have the names of allergenic substances, such as orris root, written on the package so that the consumer knows what he is getting.

Co-Chairman Mr. BASFORD: The committee might like to know that Mr. Allmand solved some of his problems early in September: He got married.

Mr. ALLMAND: Do you not think you could do something about this right now? Could these things not be written on the packages?

Dr. CHAPMAN: Yes, I believe we could, if we can demonstrate that there is a hazard to health involved in this area. However, the difficulty is to know just how to do it. We have been working with specialists in this field and even they cannot tell us what is the best procedure to follow. I have also indicated that other government departments are involved. Of course, we want to make certain, when we do move into this area and do require changes in these labels, that we are taking the action that will be most informative, so that we will not have to make further changes a year later.

It is estimated that there are 200,000 food labels on the market in Canada for which we have responsibility at the present time.

Mr. ALLMAND: That is all for now, Mr. Chairman. I would like to be put on to the list again please.

Mr. MCCUTCHEON: Mr. Chairman, may I ask a supplemental? I wanted Mr. Allmand to finish his line of questions first, but this is in connection with the $18,000 per year budget. What is that for?

Miss ORDWAY: It is for the publication of all booklets that we produce in the consumer division. It is for the printing of them, the graphical descriptions and whatever else is involved in producing them.

Mr. MCCUTCHEON: I do not like to appear smart or anything of that nature, but with a budget like that are you even listed in the telephone book?

Miss ORDWAY: No, not in the Bell telephone book. We are listed in the government telephone book.

Mr. MCCUTCHEON: Well, that is a great help to the consumer, isn't it?

Miss ORDWAY: Yes, I agree.

Mr. SCOTT (*Danforth*): It is one/two thousandths of a cent per person per year.

Mr. MCCUTCHEON: That was my supplementary, Mr. Chairman. I think this is terrible.

Co-Chairman Mr. BASFORD: I think we must recall that it is Parliament which votes the money.

Senator CARTER: Mr. Chairman, most of my questions have been answered now. Dr. Chapman, you mentioned a number of actions that had been taken by your department. How were these actions initiated? Did you discover the complaints yourself or were all of these brought to your attention by consumers? Do you have any policing force or any means of policing the products yourself, apart from what information you get from consumers?

Dr. CHAPMAN: Oh, yes, definitely. In our Bureau of Operations, of which Mr. Hollett is the Director, we have at present an inspection force of approximately 162 inspectors, who are stationed right across Canada. These inspectors are continually picking up samples which are examined in our laboratories. Some of our actions result from consumer complaints, and some of our investigations are initiated because competitors draw products to our attention. Sometimes they feel that certain products are not meeting the requirements of the Food and

Drugs Act or regulations. I think, however, the majority would actually be based on our own findings from samples which have been picked up by our inspectors and examined in our laboratories.

Senator CARTER: That would be true for the majority of the cases you mentioned?

Dr. CHAPMAN: Yes.

Senator CARTER: They were the result of the initiative of your own staff rather than the result of information obtained from consumers.

Dr. CHAPMAN: Yes.

Senator CARTER: Do you have much contact with the other departments that are interested in the same fields, for example the Department of Agriculture and the Department of Fisheries?

Dr. CHAPMAN: We have very close contact. As a matter of fact, at least one of our officers visits the Department of Agriculture practically every day. I believe that is true, is it not, Mr. Hollett.

Mr. HOLLETT: At least two or three times a week. They carry out a review of the labels to ensure that the requirements of both departments are met.

Senator CARTER: Toothpaste is not a food, but I gather it comes under the Food and Drugs Act.

Dr. CHAPMAN: Yes.

Senator CARTER: One of the companies that appeared before this committee has a toothpaste which uses the compound stannous fluoride. This compound is supposed to have a property which prevents cavities. Has your department or institution investigated that?

Dr. CHAPMAN: Yes, we certainly have.

Senator CARTER: Did you find it correct?

Dr. CHAPMAN: Yes. If a toothpaste is advertised simply as a toothpaste without any drug claims, we consider it a cosmetic. If it is advertised in such a way that drug claims are made for it, then all requirements relating to drugs must be met before the product is placed on the market.

Senator CARTER: Because it is supposed to act as a drug?

Dr. CHAPMAN: Yes.

Senator CARTER: And you have made investigations of this particular toothpaste?

Dr. CHAPMAN: Yes, we certainly have.

Senator CARTER: Now coming to beer—is beer a food under the Food and Drugs Act?

Dr. CHAPMAN: Yes.

Senator CARTER: You will remember that some time ago a number of people died who had been heavy beer drinkers. I think after a long investigation it was practically certain that the deaths had been caused by cobalt.

Dr. CHAPMAN: I could not agree with that statement. I do not think there is evidence on which to base the statement that cobalt was the cause of death, at least not to my knowledge.

Senator CARTER: I seem to recall an article where the evidence certainly pointed in the direction of cobalt. This happened in different places in the United States and at different times, and in each case the one common factor was cobalt.

Co-Chairman Mr. BASFORD: I think you are referring to the same thing I saw in a paper presented to a medical association convention.

Dr. CHAPMAN: By Dr. Morin, head of the Cardiology Institute of Laval University. This was a press report, and I believe the press reports did indicate that cobalt might very well be the factor that was responsible for these deaths, but Dr. Morin, as far as I am aware, and he has visited the laboratory of the Food and Drugs Directorate recently, does not have any evidence to that effect. He suggested there is circumstantial evidence. However, cobalt has been used in beer in Europe since 1958 and we have no reports of similar cases. It was used in the United States for a year earlier than it was allowed in Canada and we have had reports from only one area. It was used right across the country in Canada in a number of different brands of beer and again we find that there was only one area where this particular heart condition occurred. There are many factors in this situation still unanswered.

Senator CARTER: Is cobalt still an ingredient in beer?

Dr. CHAPMAN: No, it is not.

Senator CARTER: Is that because of action by your Department?

Dr. CHAPMAN: Yes, that is correct. I might just explain that statement. Immediately after the reports of the deaths of heavy beer drinkers in Quebec City, Canadian breweries with one exception stopped using cobalt. Under the circumstances and because there was at least some circumstantial evidence that cobalt might be involved, we deleted cobaltous salts from the standards for beer in July. I cannot give the exact date, but it was in the month of July.

Senator CARTER: Would you have authority or did you have authority when cobalt was used to insist that it be listed on the label?

Dr. CHAPMAN: Well, beer is a standardized product and as such there is no requirement to list the ingredients on the label. Now if we had felt that this was an ingredient that should be listed in order to inform the consumer, I believe we would have had the authority to do so. However, there appeared to be no reason whatever for doing so.

Senator CARTER: Now it is prohibited?

Dr. CHAPMAN: Yes, it is now prohibited.

Co-Chairman Mr. BASFORD: Whether it is listed or not they would have to get your permission to use it?

Dr. CHAPMAN: Yes, of course. Whether it is listed on the label or not, it would have to appear in the standard for beer and would have to go through the requirements for food additives which are quite exacting.

Senator CARTER: Have you any knowledge of what happened in another country? In the United States, for example, has it been prohibited too?

Dr. CHAPMAN: Yes, they revoked the order permitting its use sometime in August in the United States. I might say that there 1.5 parts per million were permitted and in Canada only 1.2 parts per million were permitted.

Co-Chairman Mr. BASFORD: Mrs. MacInnis.

Mrs. MACINNIS: I want to ask Miss Ordway about complaints from the consumer. Could you give us a rough breakdown of the type of complaints you get, and their percentages?

Miss ORDWAY: Well, first I must explain I have not done this report for a year. The reports were taken out of the Consumer Division and put into the Bureau of Operations. The last report I made, if I recall correctly, contained quite a few complaints about dairy products, there were complaints about filth in wheat products and in soft drinks.

Mr. MACINNIS: What sort of complaints? I am not referring so much to the products as to the complaints.

Miss ORDWAY: Filth in certain products, weight not clearly defined. I have not had the responsibility of this recently. My last report was 1700. That is the last report I submitted.

Mrs. MACINNIS: Have you had many complaints about soap and detergents. I know they don't come under your jurisdiction, but have you had complaints?

Miss ORDWAY: Yes.

Mrs. MACINNIS: A good many. Are there areas of household products not covered by any legislation, about which you had complaints?

Miss ORDWAY: Cost—the cost of products.

Mrs. MACINNIS: Which products?

Miss ORDWAY: Drugs.

Mrs. MACINNIS: But they are under your jurisdiction.

Miss ORDWAY: No, not the cost. That is not under our jurisdiction. But we get all kinds of complaints. Today, for example, I had an inquiry about a man who had a leak in his roof. He had signed a contract and he wanted to know where he could go. I have him some advice and I told him it didn't come under our jurisdiction, but I was willing to help him. We get these all the time. We also get complaints about clothes.

Mrs. MACINNIS: What I am trying to get at is whether you can say from your complaints if there are other areas which you do not cover that are not covered by Fisheries or Agriculture either. Are there complaints that are not covered by any legislation?

Dr. CHAPMAN: Well perhaps Mr. Hollett could answer this.

Mr. HOLLETT: Undoubtedly there are.

Mrs. MACINNIS: What would they be?

Mr. HOLLETT: Well, complaints about detergents or soap flakes. I do not know of any department handling that legislation. I would say that a fair number of complaints concern those. Complaints may center on anything; they run the whole gamut from the size of clothing to the quality of clothing, the size of shoes, reactions from foods, unsanitary conditions of foods, the finding of flies, filth or insects in foods, discoloration of foods and sizes of packages.

Mrs. MACINNIS: Has your department considered doing away with these size designations such as "Jumbo" and "Giant" and "Family"—has your department considered that?

Dr. CHAPMAN: No, we have not. Again I do not believe they would come under our jurisdiction. We would have to prove in a court of law that this was a deliberate attempt to deceive the consumer.

Mrs. MACINNIS: Would that also apply to packages of food products which say so many servings? Would you have jurisdiction to require that the size of serving be listed either in weight or volume?

Dr. CHAPMAN: I would think this would be questionable. This particular package that I have in my hands says, "Two pack. Three to four servings each. Net weight eight ounces."

We require a correct declaration of net contents, and the correct declaration of net contents is certainly there. I would doubt very much if we could insist that the manufacturer also put on there exactly what he means by three to four servings.

Mrs. MACINNIS: There are a lot of women who consider that is fraud because the size of serving is completely unrelated to the type of person that is getting it. You would not consider that would stand up if you prosecuted that under fraud?

Dr. CHAPMAN: No, I do not think it would.

Mrs. MACINNIS: There must be food and drug products which have cents off as well as the soap products.

Dr. CHAPMAN: Yes.

Mrs. MACINNIS: We have had evidence given to us by the soap people that there was no way by which the manufacturer could see that the consumer did get that number of cents off. For these products which come under your jurisdiction, is it not fraud for the manufacturer to say so many cents off when he knows perfectly well the consumer does not stand any chance, necessarily, of getting it with those cents off? Is that not fraud?

Co-Chairman Mr. BASFORD: Fraud is what the courts say is fraud.

Mrs. MACINNIS: I am just asking. Have you ever tried any prosecutions under that?

Dr. CHAPMAN: If you read the section of the act that pertains to foods, certainly there is no reference to this sort of situation. Well, first of all, there is the section that deals with poisonous or harmful substances. Then there is another section which says:

> No person shall label, package, treat, process, sell or advertise any food in a manner that is false, misleading or deceptive or is likely to create an erroneous impression regarding its character, value, quantity, composition, merit or safety.

But our legal counsel have never considered this extended to price or economic considerations.

Mrs. MACINNIS: I took down the words you used and you referred to "injury to health or fraud".

Dr. CHAPMAN: Yes, I did.

Mrs. MACINNIS: Would your department not consider it was fraud to promise cents off when there would be no way of enforcing it?

Dr. CHAPMAN: I did refer to fraud, but I was referring to fraud, of course, under the Food and Drugs Act. This is what we have to go back to; this is our authority.

Mrs. MACINNIS: Have you never prosecuted a case on that ground?

Dr. CHAPMAN: No, we have not, and our legal counsel has held we do not have jurisdiction over prices.

Mrs. MACINNIS: Let me ask a question about biscuits.

Co-Chairman Mr. BASFORD: The problem being, what you think is fraud and what the lawyers and the courts think is fraud are two entirely different things.

Mrs. MACINNIS: I was wondering whether the courts have ever had a chance to pronounce on it.

Co-Chairman Mr. BASFORD: They have on occasion under the Combines Investigation Act.

Mrs. MACINNIS: I think something should be done about it.

Co-Chairman Mr. BASFORD: That is the dilemma between you and Dr. Chapman.

Mrs. MACINNIS: Exactly—and the lawyers.

In regard to biscuits, I think you said you are going to be requiring manufacturers to sell these packages of biscuits by weight very shortly.

Dr. CHAPMAN: Yes.

Mrs. MacInnis: We have been having representations from consumers about means of getting these things in standard packages. Will you also require them to put the weight in some recognizable form, like half-a-pound, a pound- or two-pound packages? Or will you simply say "by weight", letting them come out with $2\frac{3}{4}$ ounces or something like that for a little package?

Dr. Chapman: We require the correct declaration of net contents. If they come out with a six-ounce package instead of a four-ounce package, the only way we can stop them is to take them to court and prove somehow that the six-ounce package was deceptive. If the declaration of the net contents is correct, I do not think we would have a chance. I am sure we would never even get the case to court.

Mrs. MacInnis: In other words, the act would have to be amended to give you these additional powers for specific weights?

Dr. Chapman: It would certainly have to be amended, and once we do this we take it into the area of "Regulation of Trade and Commerce" and out of the area of the Criminal Code, and then we would no longer have jurisdiction within the provinces.

I feel quite strongly that this would not contribute to better protection for the consumer. As a matter of fact, it would weaken very much the authority under the Food and Drugs Act to legislate against hazards to health and deliberate fraud. It seems to me the regulation of servings you refer to would be better done with a separate act rather than an amendment to the Food and Drugs Act.

Mrs. MacInnis: Supposing one were drafting a separate act, could you put that in? I am asking for a legal opinion, I know, again, but could you put in such things as these specific weights being required, the specific weight or volume of servings, the specific business about cents off, trading stamps—or is that criminal?

Co-Chairman Mr. Basford: The trading stamps are quite different, but I think you could take your model—if I may answer the question, which I am not supposed to do—from this Agricultural Products Standards Act, but the act would only deal with interprovincial or international commerce or trade.

Mrs. MacInnis: And the other is purely provincial?

Co-Chairman Mr. Basford: Is that a sufficient answer?

Dr. Chapman: Yes, very good, Mr. Basford, thank you very much.

It would regulate those products which enter into interprovincial trade, not within the province. That sort of legislation would have no jurisdiction within the province, and this is the point.

Mrs. MacInnis: Then let me ask a question this way. If we were trying to get rid of these abuses that plague the consumer and that we have just been talking about, from your experience with your legislation, should we forget all about your legislation and start in to make a brand-new statute; and, if so, what would we put it under?

Dr. Chapman: First of all, to answer the first part of the question, in my opinion it would be better to start in with a new statute because, as I pointed out earlier, if we attempt to bring this sort of regulation of trade and commerce within the Food and Drugs Act we are going to have an act that is both criminal law and the "Regulation of Trade and Commerce," and we would be continually in the situation where it is not clear which it is. Of course, this is going to have a very important and, I would feel, detrimental effect on our ability to enforce the Food and Drugs Act in those areas where it is so necessary it be enforced.

Mr. SCOTT (*Danforth*): May I ask a supplementary? Do you think there is anything in the area of joint legislation that could be done with the provinces, or have you thought of that?

Dr. CHAPMAN: Well, there is the situation where, of course, you could have concurrent legislation. I am thinking of a separate piece of legislation which would regulate the type of abuses you have been referring to. Then the provinces could adopt that same legislation, and this would give complete coverage.

Mrs. MACINNIS: Where would you put such a statute?

Co-Chairman Mr. BASFORD: How do you mean?

Mrs. MACINNIS: It would be under the Criminal Code, would it?

Dr. CHAPMAN: No.

Co-Chairman Mr. BASFORD: No, under the "Regulation of Trade and Commerce."

Dr. CHAPMAN: Yes, under the "Regulation of Trade and Commerce."

Mrs. MACINNIS: It would be federal in its scope, with the provinces coming in if they wanted to, is that the idea?

Dr. CHAPMAN: Yes.

Mr. MCCUTCHEON: I am sure we have had quite an eye-opener here today with the witnesses, and any question that I ask, I want you to understand, is not critical of you or the department, but, surely, if your department is to be of more real assistance to the consumer an enlargement of your advertising budget must be essential. Do you agree with that conclusion I have drawn?

Dr. CHAPMAN: I agree entirely.

Mr. MCCUTCHEON: I am shocked to think of your only being listed in the Government telephone book. As far as the consumer is concerned, that looks like a definite attempt to hide your light under a bushel.

Dr. CHAPMAN: I hardly think this is a correct statement. Certainly, informed consumers how there is a Consumers' Division in the Food and Drug directorate. Even the operators at the Government telephone exchange know the consumer number in the Food and Drug directorate.

Mr. O'KEEFE: How much was the budget four years ago?

Miss ORDWAY: About $12,000 I think. I am just guessing at this.

Mr. O'KEEFE: It is not 50 per cent more than what it was four years ago, as small as it is?

Dr. CHAPMAN: In our long range plans we have proposed to double the staff of the Consumer Division over a period of twelve years—that is, from 12 to 25. We also, of course, propose to increase the allocation of funds to the Consumer Division just as rapidly as we can. I should point out, however, that there is a limit on the total amount of funds that are available, and these have to be allocated to all of our activities. If we give more to the Consumer Division to enable it to better inform consumers then we are going to have to take inspectors, medical doctors, pharmacologists and analysts off the work and testing they are doing now, and put the money into the Consumer Division. There has to be a balance in this, because it is extremely important, I think, that we have very competent and experienced people evaluating new drug submissions, for example. We must have competent scientists in our research laboratories. We must have well trained chemists in our analytical laboratories to examine these products. It is a question of dividing up the pie.

Mr. ALLMAND: You require a total of more money?

Dr. CHAPMAN: That is correct. We need it in order to expand.

Mr. McCUTCHEON: I could not agree with you more. I still think you should have a larger budget, and that you should enlarge this thing.

Now, I believe it was Senator Carter who asked you about beer, and Mr. Scott who asked you about whiskey. I have a question also with respect to a fluid. Are there any consistency standards that come under your department—I believe you mentioned the consistency of non-standard products. I am really talking about apple juice. Are there consistency standards, for example, in respect of apple juice as there are in respect of maple syrup?

Mr. HOLLETT: There is a standard for apple juice.

Mr. McCUTCHEON: There is?

Mr. HOLLETT: Oh, yes, in both the Food and Drugs regulations and the Fruit and Vegetable regulations.

Mr. McCUTCHEON: You may not be able to answer this question, and if not perhaps the chairman would take a note of it because it is something that might be of interest to us later. How many departments of government have jurisdiction over food and drugs, and what are they?

Dr. CHAPMAN: Well, the departments that have jurisdiction over foods—and I am thinking of the composition of foods—would be the Department of Agriculture and the Department of Fisheries. Are there any others that you can think of, Mr. Hollett.

Mr. HOLLETT: Weights and Measures exercise some jurisdiction over weights.

Dr. CHAPMAN: Yes, but I was thinking about composition. The Weights and Measures Division of Trade and Commerce has jurisdiction over the weights and mesures which relate to foods.

Mr. McCUTCHEON: Then, counting your department, there are three or four other departments of government that are involved?

Dr. CHAPMAN: Yes.

Mr. McCUTCHEON: Is there any department similar to yours to report on, say, the quality of hard consumer goods?

Dr. CHAPMAN: No, there is not—not to my knowledge.

Mr. McCUTCHEON: There is nothing in the way of—

Dr. CHAPMAN: You were thinking of such things as automobiles, for example?

Mr. McCUTCHEON: And appliances and even fabrics, which were mentioned before. There is nothing in that—

Dr. CHAPMAN: Not comparable to us.

Mr. McCUTCHEON: Not comparable to you?

Dr. CHAPMAN: No.

Mr. McCUTCHEON: Would the consumer be better served if there was a consolidation of food, drug and consumer affairs into one department, responsible to one, shall I say, minister?

Dr. CHAPMAN: Let me express my views in regard to the Food and Drug Directorate, and I think that that is as far as I should really go because the other is a decision for the government. So far as the Food and Drug Directorate is concerned, I do not feel this should be taken out of the Department of National Health and Welfare, particularly in the area of hazards to health, and in the control of both foods and drugs. In this area we work very closely, and draw heavily on, other divisions and other branches of the department for assistance. I

am referring, for example, to the Laboratory of Hygiene that does the typing of *Salmonella*. When we run into a situation where there is evidence of contamination of food by *Salmonella* then we have the assistance of the Laboratory of Hygiene to type those particular organisms. We receive assistance also from the Laboratory of Hygiene in the inspection of parenteral drug plants. These are drugs that are used for injection. We are in very frequent consultation with other divisions such as Maternal and Child Health, Dental Health, Epidemiology—these are just a few.

I feel, therefore, that it is essential, as far as the protection of the consumer from hazards to health is concerned, that the Food and Drug Directorate remains in the Department of National Health and Welfare.

Mr. McCUTCHEON: Do you envisage difficulty in the enlargement of the food and drug directorate to provide for a greater degree of service to the consumer, but leaving it right where it is? Do you feel that this would be advisable.

Dr. CHAPMAN: This is a hypothetical question.

Mr. McCUTCHEON: I grant you that.

Dr. CHAPMAN: At the present time we do not have any capacity, for instance, in the economic area. There might be advantages in putting problems of consumer interest in the economic field into a department that had more capacity in this area.

Mr. McCUTCHEON: Thank you very much. You have been most helpful. We are thinking of what we can do on behalf of the consumer, and it is only by asking such questions, which I trust you do not think are too silly, that we will be able to come up with something.

Mr. McLELLAND: I have just one question left, Mr. Chairman. I was wondering if in your department you get many complaints about the common ordinary aspirin pills. Do you set certain standards with respect to them, because there is certainly a discrepancy in the price of the so-called aspirins that different companies make. I do not know whether each company calls them aspirins, but they can be bought by the hundred or by the dozen, and so forth. Is there a common ingredient that has to be there in order for you to say it is aspirin? Some call them by three letters, and others call them other things. I am thinking of the time of year that is coming up.

Dr. CHAPMAN: All of the common headache tablets contain acetylsalicylic acid, and this is frequently sold or referred to under the short form of A.S.A., which I think are the three letters you are referring to. This is a drug. It has to meet any standards that are established in any of the official compendia which are listed in our regulations, so I think the composition of such products would be very similar.

Mr. McLELLAND: Would you tell me whether the composition of Aspirin and Bufferin is identical?

Dr. CHAPMAN: Well, Aspirin is—

Mr. McLELLAND: Or, whether the composition of all headache pills and Bufferin is identical?

Dr. CHAPMAN: The active ingredient in Aspirin is acetylsalicylic acid. Bufferin is a compound product which contains acetylsalicylic acid, but it has other ingredients as well.

Mr. McLELLAND: I do not know whether this is the proper place to bring it up, but I understand you get complaints as to wearing apparel. We are not dealing with that today, and I do not suppose it is proper for me to bring it up now, because I understand we are going to hear from manufacturers of wearing apparel a little later on in the hearings.

Co-Chairman Mr. BASFORD: We had some discussion earlier about clothing as a hazard to health in connection with those suffering from allergies. Before the second round, may I ask a few questions. You said, Dr. Chapman, you controlled toothpaste or cosmetics if it did not have a drug claim or a drug if it had a drug claim. Somewhere your regulations call for and you read it out, listing the weight or size according to the common practice. What is the common practice in toothpaste?

Mr. HOLLETT: The common practice is by weight in toothpaste. The weight can be in ounces or can be in metric measure.

Co-Chairman Mr. BASFORD: Here is something which apparently you have control over. Why do you permit measurement in grams which is absolutely meaningless to 99 per cent of the people?

Mr. HOLLETT: Because the metric measure is recognized in Canada as an official system.

Co-Chairman Mr. BASFORD: Would it not save confusion to consumers to have it in either one or the other? Some companies measure it in ounces and some under the metric system.

Mr. HOLLETT: I do not know how we could restrict it if both measures are official. I myself would favour a tendency of movement towards grams. That is my personal opinion. For a small product of this nature I think grams is a more meaningful term.

Co-Chairman Mr. BASFORD: We just heard the other day that one of the large companies had converted from grams to ounces. I would like to ask a question about alleged secret ingredients. Do you have recipes of all the secret ingredients that are advertised?

Dr. CHAPMAN: Yes, we have, or we have authority to get such information.

Co-Chairman Mr. BASFORD: I am thinking of Coca-Cola, which is alleged to be the most closely guarded corporate secret there is. Do you know what Coca-Cola contains?

Dr. CHAPMAN: We would have information in regard to the ingredients of Coca-Cola which would be sufficient to determine whether or not there was any hazard to health involved. We would not necessarily require that we have the exact formula, exact amounts, that are used in a particular food product, but we would insist on knowing what the components were in order that we could determine whether or not these were satisfactory for use in a food product.

Co-Chairman Mr. BASFORD: On that basis you can certify, for example, if Coca-Cola is not a hazard to health?

Dr. CHAPMAN: That is correct.

Co-Chairman Mr. BASFORD: A hazard to small children, if not to health. Here is an advertisement for another secret ingredient which has been very highly advertised over the last year. It is a cosmetic called "2nd Début." Apparently now every woman is entitled to look younger, and it reveals a marvellous discovery in Wiesbaden, Germany. This part of it contains CEF 600, and if you really have lines and look beaten up you can get it from CEF 1200. Do these things do what they claim they are supposed to do?

Dr. CHAPMAN: I might say that in the Food and Drug Directorate we do have to assign priorities. We must concentrate on those areas that represent the greatest hazard to health or the greatest possibility of fraud. In the area of cosmetics we have felt that a certain amount of leeway could be permitted and we have not been as stringent about cosmetics as we have in other areas.

Co-Chairman Mr. BASFORD: You do not think it is a top priority that women think they are looking younger when in fact they are not younger?

Mr. HOLLETT: I should explain that we are well aware of this advertisement and that we are aware of the composition of this product, and we are satisfied that there is a moisture retaining substance in the cosmetic. Dr. Chapman did not mention that there is not in the Food and Drugs Act a certain section relating to deception as we have in foods, drugs and medical devices. There is in fact no prohibition under the act against deceptive advertising for cosmetics.

Co-Chairman Mr. BASFORD: Your sole concern with cosmetics is whether it is a health hazard?

Dr. CHAPMAN: That is correct.

Co-Chairman Mr. BASFORD: So when it says:

> News has leaked out concerning a carefully guarded top secret discovery by a small but important group of skin physiologists.

etcetera, all you are concerned with is not whether or not it is an important discovery, but whether it is a hazard to health?

Dr. CHAPMAN: This is correct.

Co-Chairman Mr. BASFORD: Mr. Scott?

Mr. SCOTT (*Danforth*): I wanted to ask you about a response you made to Mrs. MacInnis. You indicated that under trade and commerce we do not have adequate powers because of the interprovincial aspect.

Dr. CHAPMAN: I said that if legislation to control trade and commerce were introduced into the Food and Drugs Act then I would feel this would weaken the power of the Food and Drugs Act.

Mr. SCOTT (*Danforth*): Have you had any explorations with any provincial counterparts with a view to joint action?

Dr. CHAPMAN: No, we have not; but this would presuppose that there was action at the federal level to develop legislation that would control these areas, and this would appear to be the necessary first step before you can go to the province and ask if they would adopt concurrent legislation.

Mr. SCOTT (*Danforth*): To come back to toothpaste, why can you not make them put in 50 grammes, 100 grammes, 200 grammes? Why the 238.5 and 81.9, and all that stuff?

Dr. CHAPMAN: This is a correct declaration of net contents, and not a violation under the Food and Drugs Act regulations.

Mr. SCOTT (*Danforth*): Do they have to state the amount they put on?

Dr. CHAPMAN: No, not under this legislation. I might explain that the reason you get these fractions of grammes is that if they put in eight ounces and convert to grammes you end up with a fraction of a gramme.

Co-Chairman Mr. BASFORD: Your sole concern is that if someone says it is 15 3/4 ounces, in fact it is 15 and 3/4 ounces?

Dr. CHAPMAN: It must be.

Co-Chairman Mr. BASFORD: You have no authority to say it should be 16?

Dr. CHAPMAN: That is correct; but if it says 15 3/4 ounces there must be 15 3/4 ounces present or it is a violation of our regulations.

Mr. SCOTT (*Danforth*): That is all I have.

Co-Chairman Mr. BASFORD: Mr. Allmand?

Mr. ALLMAND: Dr. Chapman, do you have any jurisdiction over services which are related to a health product? For example, these people who advertise and pretend that they can cure baldness, as one example?

Co-Chairman Mr. BASFORD: It does not work.

Mr. ALLMAND: But it has to do with health to some extent. The same applies to dry cleaning processes where they use drugs, by which they say they can renew the clothes, and so on. There are other types of things like that related to a product, but I think it applies mainly to the people who claim they can cure baldness.

Dr. CHAPMAN: Certainly we have no jurisdiction over the claims relating to dry cleaning processes. I will ask Mr. Hollett to comment on the claims to cure baldness.

Mr. HOLLETT: It seems very appropriate that Dr. Chapman has asked me. If the manufacturer is selling a product for the growth of hair we would take exception to this because we are satisfied there is no such a product. If a person is advertising a treatment within his office for the growth of hair he is not selling a drug for the growth of hair per se, and I feel we could not take action in that instance.

Co-Chairman Mr. BASFORD: The press will note that so far as the Food and Drug Directorate is concerned there is no cure for baldness. There is a great deal of money being spent on things that are not cures.

Mr. ALLMAND: Do you control the sale of contact lenses at all?

Mr. HOLLETT: Not at all.

Mr. ALLMAND: Can the people of Canada buy the ingredients in a drug store for L.S.D.? Is the L.S.D. drug controlled in any way by your department or can people buy it in a drug store?

Co-Chairman Mr. BASFORD: Mr. Allmand, there have been a number of statements on this subject in the house and I am not sure that it is relevant to our inquiry.

I thank Dr. Chapman and his colleagues very much for coming here today and explaining the jurisdiction and the operation of the directorate, as this is what we wanted to know.

The committee adjourned.

APPENDIX "11"

Supplementary information supplied by:

The Great Atlantic & Pacific Tea Co.

Dominion Stores Ltd.

Atlantic Wholesalers Ltd.

H. J. Heinz Co. of Canada Ltd.

Burns Foods Ltd.

Loblaw Groceterias Co. Ltd.

THE GREAT ATLANTIC & PACIFIC TEA COMPANY LIMITED

Proceedings No. 8, Pages 418-433

Supplementary information supplied by the Company arising out of their hearing before the Committee on October 17, 1966:

Q. Mr. Saltsman (p. 418) and Senator Thorvaldson (p. 422) asked for information concerning the percentage of sales of private brands in relation to nationally advertised brands.

A. We do not keep A & P Brand figures separately,... A conservative estimate, however, would place A & P Private Brands, in relation to our total grocery sales, at approximately 33 per cent.

Q. In response to questions by Mr. Urie (p. 426), Mr. Provost undertook to provide figures on profits after taxes excluding income from investments related to sales.

A. The percentage figures are:

1961	1.20
1962	1.41
1963	1.50
1964	1.75
1965	2.10
1966 (31 weeks)	2.01

Q. Mr. Basford (p. 430) asked for the names of the National Brands in Columns A and B of Appendix C (Proceedings No. 8, p. 441)

A. The completed version of Appendix C is shown below:

APPENDIX C

A&P Brands and Retails		Nationally Advertised Brands			
		A		B	
Evaporated Milk, 16oz	4/59	Carnation, 16 oz	2/37	Libby's	3/46
Powdered Milk, 8#	2.59	Carnation, 8#	2.99	Milko, 8#	3.19
Instant Coffee, 6oz	.89	Chase & Sanb., 6oz	1.21	Maxwell House	1.33
Ginger Ale, 30oz	8/99	Canada Dry, 30oz	2/39	Niagara Dry	2/35
Can. Pop Asst. Fl.	12/95	Canada Dry	2/31	Pure Springs	6/65
Cheese Slices, ½#	.35	Kraft	.41	Borden's	.41
Sockeye Salmon, ½	.63	Cloverleaf, ½	.69	Paramount, ½	.69
All Purpose Flour, 25#	1.99	Five Roses, 25#	2.59	Robin Hood	2.63
Tomato Juice, Fcy, 48oz	3/$1.	Bright's, 48oz	.41	Heinz, 48oz	.41
A&P Ch. Peaches, 14oz	2/55	Aylmer, Ch.	2/59	Bright's Ch.	.29
Sail Soap Powd. King	1.29	OMO King	1.89	Tide	1.83
Sunnyfield Lard, 1#	2/53	Maple Leaf, 1#	.28	Silverleaf	.29
Salad Dressing, 16oz	.35	Hellman's, 16oz	.45	Kraft, 16oz	.45
Mayonnaise, 16oz	.39	Hellman's, 16oz	.49	Kraft, 16oz	.53
Ketchup, 11oz	2/43	Aylmer, 11oz	2/45	Heinz, 11oz	.26
Tomato Soup, 10 oz	4/47	Heinz	6/89	Campbell's	2/29
Baked Beans, 15oz	2/35	Clark's	2/47	Libby's	2/47
Cr. Corn, Ch. 15oz	2/33	Aylmer	2/37	Libby's	2/41
Peas, Fcy, 15oz	2/41	Del Monte	2/45	Stokley's	2/45
Nectar Tea Bags, 60's	.65	Red Rose	.87	Salada	.87
Potato Chips 4oz	.25	Humpty Dumpty	.29	Lever's	.29
Vac Pack Coffee, 1#	.95	Maxwell House	1.09	Ch. & Sanborn	1.09
Froz. Orange Juice, 6oz	4/89	Bird's Eye	2/47	Libby's	2/49
Froz. Corn, 12oz	2/43	Green Giant	2/45	Libby's	2/49
Raisins, Seedless 15oz	.33	Del Monte	.39	Farm Boy	.35
Gr. Fruit & Pine-apple, 48oz.	.37	Del Monte	.41	Libby's	.39
Sail Liq. Soap, 24oz	.45	Maple Leaf	.89	Vel	.89
Pumpkin Ch. 28oz	2/43	Libby's Fancy	2/51	Stokley Fancy	.29
Jubilee Cheese Spread 16oz	.69	Kraft	.75	Ingersoll	.73

Q. Mr. Smith (p. 431) asked for information concerning the price increase which resulted from the change in the method of packaging Lipton's Soup.

A. Prior to August, 1964 the old style cost $7.92 for a carton of 72. This cost was not changed with the introduction of the new package in August 1964. Effective May 30, 1966 the cost for a carton of 72 declined to $7.72. The retail prices of A & P, which were 2 for 27 cents for the old style remained at 27 cents for the package containing 2 envelopes.

Q. Mr. Leblanc (p. 433) asked for a reconciliation of the fact that sales had increased, expenses had decreased and profits after taxes had decreased.

A. Mr. Provost's reply was, "It is simply this: We are selling our food at a little less mark-up." The correctness of this reply is confirmed, but the reference is to dollars and not to rate of profit.

DOMINION STORES LIMITED, TORONTO

Proceedings No. 9, Pages 469-483

Supplementary information supplied by the Company arising out of their hearing before the Committee on October 18, 1966:

Q. Senator Croll, page 469: Could the Committee have the actual audits relating to meats and produce for the two Toronto stores?

A. The data requested are in the following tables:

(*See Schedule A at pages 1962-1965 and Schedule A-1 at page 1966.*)

Q. Senator Croll, page 474: The Committee would like your list of all the various suppliers from whom you purchase meat.

A. The list is shown below:

(*See Schedule B at page 1967.*)

Q. Senator Carter (page 478) asked for a comparison of the prices of Domino and Gay liquid detergents.

A. The required comparison is supplied as follows:

Retail Prices for Gay & Domino Liquid Detergents
Toronto

Brand	Contents	Selling Price
Gay	12 oz.*	31¢
Domino	12 oz.*	28¢

* 12 oz. size only one common to both brands.

SCHEDULE "A"

JANUARY 14, 1966.

PRODUCE MARGIN STUDY WITH KNOWN LOSS ANALYSIS—TWO TORONTO STORES—NOVEMBER 15TH-27TH, 1965

Commodity		Max. Marg. %	Adv. Spec.	Over-weight or Under-weight	Dete-riora-tion	Poor Quality Upon Arrival	Waste in Original Ship-ment	Under-Size	Toler-ance	Total	Margin % After Known Loss & Before Supplies	Supplies %	Total Known Loss	Net Margin %
Apples	Cortland	28.42	7.90		1.06					8.96	19.46	.21	9.17	19.25
	Delicious	28.17			.36	.02				.38	27.79	.01	.39	27.78
	McIntosh	23.98			.52					.52	23.46		.52	23.46
	Russet	32.21			.45					.45	31.76		.45	31.76
	Spy	26.75			3.56					3.56	23.19		3.56	23.19
	Total Apples	26.57	.67		.80					1.47	25.10	.02	1.49	25.08
Avocados*		32.20			100.00					100.00	(67.80)		100.00	(67.80)
Bananas	Cabana*	35.61				3.00				3.00	32.61		3.00	32.61
	Chiquita	30.72		(.17)	2.48	2.26				4.57	26.15		4.57	26.15
	Equador*	35.60		1.26		4.49				5.75	29.85		5.75	29.85
	Martinique	32.45		(1.76)	.69	5.31				4.24	28.21		4.24	28.21
	Total Bananas	31.62		(.79)	1.65	3.54				4.40	27.22		4.40	27.22
Beans (Green and Wax)		21.27		(1.33)	2.94	5.79	.93		1.27	9.60	11.67	5.35	14.95	6.32
Beets (Bunch and Poly)		23.36			7.53					7.53	15.83	.21	7.74	15.62
Broccoli		18.40			4.76	2.07				6.83	11.57	.31	7.14	11.26
Brussel Sprouts		33.83			1.28					1.28	32.55	.31	1.59	32.24
Cabbage	Red	50.28			3.52					3.52	46.76		3.52	46.76
	Green	34.05			1.55					1.55	32.50		1.55	32.50
	Savoy	49.44			.97					.97	48.47		.97	48.47
	Total Cabbage	35.88			1.61					1.61	34.27		1.61	34.27
Carrots	Poly	40.41			.05					.05	40.36	.55	.60	39.81
	Bunch	26.29			2.51					2.51	23.78		2.51	23.78
	Total Carrots	34.71			1.04					1.04	33.67		1.04	33.67
Cauliflower		23.63			2.98			.03		3.01	20.62	.55	3.56	20.07
Celery	Hearts	23.12			.26	1.55				1.81	21.31	.33	2.14	20.98
	Stalks	32.22			5.07	2.20		.09		7.36	24.86	.53	7.89	24.33
	Total Celery	27.75			2.71	1.88		.04		4.63	23.12	.43	5.06	22.69

Chard*		50.41									50.41			50.41
Chestnuts*		37.09									37.09			37.09
Chicory		28.57			5.13					5.13	23.44		5.13	23.44
Cocoanuts		25.60			5.27	3.33				8.60	17.00	4.33	12.93	12.67
Corn		17.47		.98	2.31	2.27				5.56	11.91	3.96	9.52	7.95
Cucumbers		35.07		.18	1.58	.65				2.41	32.66		2.41	32.66
Cranberries		18.46									18.46	.49	.49	17.97
Dates		14.98									14.98	.21	.21	14.77
Egg Plant*		14.74									14.74			14.74
Endive		34.48	9.96		10.73					20.69	13.79	2.01	22.70	11.78
Escarole		43.84	16.89							16.89	26.95	.42	17.31	26.53
Figs		29.48									29.48	.18	.18	29.30
Garlic		36.50									36.50			36.50
Grapefruit		28.55	4.16		1.83	.13		.04		6.16	22.39	0.3	6.19	22.36
Grapes	Red	24.39		(1.27)	.12		.56		.90	.31	24.08	4.71	5.02	19.37
	Black	31.81		(1.49)	4.95	6.75	.62		1.28	12.11	19.70	4.28	16.39	15.42
	Calmeria	29.32		(2.17)	.04		1.33		1.07	.27	29.05	4.15	4.42	24.90
	Total Grapes	27.01		(1.55)	.92	1.15	.78		1.01	2.31	24.70	4.48	6.79	20.22
Leeks*		32.47									32.47			32.47
Lemon and Lime Juice		33.75									33.75			33.75
Lemons		38.57			1.69	.12	.12			1.81	36.76	1.77	3.58	34.99
Lettuce	Head	29.22			7.24	.22		.29		7.75	22.17	1.54	9.29	20.63
	Leaf*	35.01			11.63					11.63	23.38	.52	12.15	22.86
	Boston*	37.00									37.00	11.61	11.61	25.39
	Romaine	31.73			34.62					34.62	2.89		34.62	2.89
	Total Lettuce	30.24			7.86	.20		.27		8.33	21.91	1.51	9.84	20.40
Melons	Cantaloupe*	30.62			36.64					36.64	(6.02)	3.59		(9.61)
	Honey Dews*	28.18			7.08					7.08	21.10		7.08	21.10
	Spanish	23.75			1.64					1.64	22.11	.28	1.92	21.83
	Total Melons	27.50			18.67					18.67	8.83	1.79	20.46	7.04
Mushrooms		39.14	14.93	.35	1.90	.07			1.22	18.47	20.67	3.77	22.24	16.90
Onions	Green	32.02	5.41		.52					5.93	26.09		5.93	26.09
	Spanish	30.13			2.49	.76				3.25	26.88	.32	3.57	26.56
	Red	18.86									18.86			18.86
	Other	42.08			.56	.10				.66	41.42	.03	.69	41.39
	Total Onions	36.17	1.82		.84	.17				2.83	33.34	.06	2.89	33.28

SCHEDULE "A" (*Concluded*)

Commodity		Max. Marg. %	Adv. Spec.	Over-weight or Under-weight	Dete-riora-tion	Poor Quality Upon Arrival	Waste in Original Ship-ment	Under-Size	Toler-ance	Total	Margin % After Known Loss & Before Supplies	Supplies %	Total Known Loss	Net Margin %
Oranges	Brazilian	22.42			17.62	4.70				22.32	.10		22.32	.10
	California	27.36		.09	.80	.76				1.65	25.71	2.45	4.10	23.26
	Florida	26.68		.11	5.40	1.39				6.90	19.78	2.10	9.00	17.68
	Mexican	29.36			1.75	.12				1.87	27.49		1.87	27.49
	South African	27.31		.21	2.80	.67				3.68	23.63	2.29	5.97	21.34
	Total Oranges	27.53		.12	2.44	.77				3.33	24.20	1.86	5.19	22.34
Parsley		36.64									36.64			36.64
Parsnips		38.36									38.36			38.36
Pears	Bosc	28.42			1.60	.17				1.77	26.65	1.47	3.24	25.18
	Anjou	33.29	5.64		.48	.12			.58	6.82	26.47	2.81	9.63	23.66
	Total Pears	30.82	2.78		1.05	.14			.29	4.26	26.56	2.13	6.39	24.43
Peppers		41.30			9.56					9.56	31.74		9.56	31.74
Pineapples		30.00									30.00			30.00
Potatoes	N.B.	31.25	6.79		.11					6.90	24.35		6.90	24.35
	P.E.I.	32.21			.81					.81	31.40		.81	31.40
	Idado	29.77			1.07	.11				1.18	28.59		1.18	28.59
	Red Pontiac*	21.86			3.16					3.16	18.70		3.16	18.70
	Total Potatoes	31.39	3.09		.55	0.1				3.65	27.74		3.65	27.74
Radishes		33.27	10.63		4.16					14.79	18.48		14.79	18.48
Salad	Cole Slaw	35.90			12.79					12.79	23.11	.34	13.13	22.77
	Chef	31.48			7.82					7.82	23.66	.29	8.11	23.37
	Total Salad	33.54			10.14					10.14	23.40	.32	10.46	23.08
Spinach		26.82			.39					.39	26.43		.39	26.43
Squash	Butternut	30.56			1.28					1.28	29.28	.22	1.50	29.06
	Pepper	32.36			13.92	4.28				18.20	14.16		18.20	14.16
	Zuccdini*	39.64			10.26	1.37				11.63	28.01	.71	12.34	27.30
	Total Squash	32.36			5.28	1.10				6.38	25.98	.26	6.64	25.72

Tangerines		32.94				.86	1.89				2.75	30.19	1.22	3.97	28.97
Tangelos		28.89	10.43			1.59	.31				12.33	16.56	.16	12.49	16.40
Tomatoes	Cello	22.42				3.45	1.15				4.60	17.82		4.60	17.82
	Hot House	30.03			.03	1.26	4.60			1.55	7.74	22.29	3.66	11.40	18.63
	Total Tomatoes	27.34			.02	2.03	3.57			1.01	6.63	20.71	2.37	9.00	18.34
Turnips	Waxed	50.92			(.31)				3.40		3.09	47.83		3.09	47.83
	Poly	32.14										32.14			32.14
	Total Turnips	49.95			(.29)				3.22		2.93	47.02		2.93	47.02
Yams		36.31				2.34	3.48			1.28	7.10	29.21	4.41	11.51	24.80
Plant Supplies		39.62										39.62	.50	.50	39.12
Tropical Plants		36.52				10.93					10.93	25.59	.27	11.20	25.32
Flowering Plants and Cuts		33.28				3.50					3.50	29.78	.70	4.20	29.08
	TOTAL %	30.29	1.71	(.14)	2.05	1.03	.05	.07	.21	4.98	25.31	1.01	5.99	24.30	
		$ 6,919.89	390.55	32.75	469.65	235.67	12.34	15.41	47.71	1,138.58	5,781.31	230.68	1,369.26	5,550.63	

* Sold in one store only.

SCHEDULE "A-1"

MEAT STUDY MARGIN WITH KNOWN LOSS ANALYSIS

% KNOWN LOSS—AUGUST 3RD TO AUGUST 21ST, 1965

Group	Max. Margin*	Adv. Spec.	Loss in Bloom	Spoiled	Mince Day-old	Tolerance	Refunds	Total before Wrap	Margin before Wrap	Wrapping	Total known Loss	Net Margin*
	%											%
Beef	27.27	6.11	1.90	.11	.35	.92	.14	9.53	17.74	1.54	11.07	16.20
Pork	34.10	10.34	1.18	.72	.11	.93	.07	13.35	20.75	1.14	14.49	19.61
Veal	31.11		1.11	.52	.83	1.84	.69	4.99	26.12	1.62	6.61	24.50
Lamb (fresh)	27.46		1.13	4.60		3.02		8.75	18.71	2.87	11.62	15.84
Lamb (frozen)	34.92		3.32	4.33		1.71		9.36	25.56	1.84	11.20	23.72
Poultry	29.73			.27		.82	.50	1.59	28.14	2.05	3.64	26.09
Bacon	29.53	5.89		.06		.03	.26	6.24	23.29	.02	6.26	23.27
Wieners	24.84								24.84			24.84
Sausage	30.00					.01		.01	29.99		.01	29.99
Fish	32.62			.28			.47	.75	31.87		.75	31.87
Prepared Meats	30.06					.27	.19	.46	29.60	.26	.72	29.34
Smoked S.P. Meat	21.74			.06		1.44		1.50	20.24		1.50	20.24
Offals	42.18	7.64		4.91		.60		13.15	29.03	1.18	14.33	27.85
Sundry	29.83						.54	.54	29.29	.78	1.32	28.51
Italian Cheese	30.76											30.76
Total	29.42	4.41	.93	.33	.16	.72	.20	6.75	22.67	1.09	7.84	21.58

*In Reprocessing.

SCHEDULE "B"

Dominion Stores Limited
Authorized Meat Suppliers
(Government Inspected by
"Health of Animal" Doctors)

NOVEMBER 1966

SUPPLIER	CITY
A & A Frozen Foods	Winnipeg, Manitoba
Abattoir Berthier	Berthier, Quebec
Abattoir Ltd.	Berthier, Quebec
ACA Cooperative	Kentville, Nova Scotia
Ahunstic Chop Suey	Montreal, Quebec
A La Canadienne Ltd.	Weedon, Quebec
Alberta Poultry	Calgary, Alberta
Aloro Food Products	Toronto, Ontario
Alpine Foods	Toronto, Ontario
Alpine Meat Packers	Toronto, Ontario
B. C. Quality Foods	Vancouver, British Columbia
B. C. Chip Steaks	Vancouver, British Columbia
Bilopage Inc.	Quebec, Quebec
Bittner Meat Packers	Toronto, Ontario
Brampton Poultry	Brampton, Ontario
Broadview Poultry	Toronto, Ontario
Brome Lake Ducks	Knowlton, Quebec
Burns Foods	Calgary, Alberta
Calgary Packers	Calgary, Alberta
Canadian Dressed Meats	Toronto, Ontario
Canadian Poultry Sales	Toronto, Ontario
Canard Poultry Ltd.	Winnipeg, Manitoba
Capital Meat Co.	Pt. William, Nova Scotia
Carl Buddig Co.	Edmonton, Alberta
Chicago Kosher Ltd.	Chicago, Illinois
Choice Cut Up Chicken Ltd.	Winnipeg, Manitoba
Chun King Corp.	Aurora, Ontario
Coleman Packers	Windsor, Ontario
Comfort & Tiley	London, Ontario
Co-Op Poultry	Shannes, Ontario
S. Coorsh & Sons	Regina, Saskatchewan
Darrigo's Italian Meat Prod.	Montreal, Quebec
D. P. P.	Toronto, Ontario
Dominion Poultry Sales	Moncton, New Brunswick
Drach Food Prod.	Winnipeg, Manitoba
Dresden Produce (Poultry)	Outremont, Quebec
G. Dueck & Son	Dresden, Ontario
Dundas Producers	Niverville, Manitoba
Elliott's Bakery	Dundas, Ontario
Epco, Edmonton	Toronto, Ontario
Essex Packers	Edmonton, Alberta

Authorized Meat Suppliers (*Continued*)

SUPPLIER	CITY
Export Packers (Poultry)	Hamilton, Ontario
First Cooperative Packers	Barrie, Ontario
Fletcher's	Vancouver, British Columbia
Florentino Poultry	Niagara Falls, Ontario
Forgan & Co.	Winnipeg, Manitoba
Friendly Farms	Steinbach, Manitoba
Frontenac Packing Co.	Montreal, Quebec
F. W. Fearman	Toronto, Ontario
Gainers, Edmonton	Edmonton, Alberta
Galla Bakery Ltd.	Ottawa, Ontario
Great West Packers	Montreal, Quebec
Griffith Lab.	Toronto, Ontario
Grusko Son	Winnipeg, Manitoba
Harry Horne Foods	Toronto, Ontario
Hochelaga Beef Co.	Montreal, Quebec
Hoffman's	Kitchener, Ontario
Frank Hunnisett Ltd.	Toronto, Ontario
Hygrade Food Prod.	Montreal, Quebec
Imperial Poultry Ltd.	Watford, Ontario
Intercontinental Packers	Saskatoon, Saskatchewan
Island Provisioners	Charlottetown, P.E.I.
Jenkins	Summerside, P.E.I.
King Cole Duck Farms	Richmond Hill, Ontario
Kitchener Packers	Kitchener, Ontario
W. F. Kolbe Ltd.	Port Dover, Ontario
Kwinter Foods Ltd.	Toronto, Ontario
La Belle Fermière	Montreal, Quebec
Lacombe & Robidoux	Montreal, Quebec
Larsen Packers Ltd.	Berwick, Nova Scotia
Laurier Packers	Montreal, Quebec
Leader Packers	Toronto, Ontario
Legrade Inc.	Quebec, Quebec
Letosky Broth.	Montreal, Quebec
Levesque Poultry	Bedford, Quebec
Levitts Co.	Montreal, Quebec
R. J. Lucas	Toronto, Ontario
Lunenburg Sea Prod.	Lunenburg, Nova Scotia
J. Macher Co. Ltd.	Montreal, Quebec
Made-Rite Sausage Co.	Vancouver, British Columbia
McQuaide's Meat Pies	Toronto, Ontario
Meteor Meats	Vancouver, British Columbia
Metropolitan Packers Ltd.	Toronto, Ontario
Modern Packers	Montreal, Quebec
Modern Poultry	Montreal, Quebec
Montreal Plant Frozen Food	Montreal, Quebec
Morantz Beef Co.	Montreal, Quebec
Morrisons	Galt, Ontario
Mortson Sales	Toronto, Ontario

Authorized Meat Suppliers (*Concluded*)

SUPPLIER	CITY
Mow Sang Food Co.	Montreal, Quebec
Mueller	Niagara Falls, Ontario
Niagara Finest Poultry	Niagara Falls, Ontario
Norm Gerrie Steakettes	Toronto, Ontario
N.S. Cooperative	Halifax, Nova Scotia
Origena Pizza	Toronto, Ontario
Ottawa Beef	Ottawa, Ontario
Pacific Meats	Vancouver, British Columbia
Panco Poultry	Vancouver, British Columbia
Pembina Poultry Packers	Morden, Manitoba
Pinecrest	Calgary, Alberta
Polonskys	Montreal, Quebec
Prairie Produce	Winnipeg, Manitoba
Presswod Packers	Toronto, Ontario
Primo Belevedere Salami	Toronto, Ontario
Wm. Puddy Beef	Toronto, Ontario
Quebec Poultry	Rouville, Quebec
Ranch Hand Product	Vancouver, British Columbia
Red Deer Packers	Regina, Saskatchewan
Riverside Poultry	London, Ontario
Roma Foods	Montreal, Quebec
Schneiders	Kitchener, Ontario
Scott Poultry	Vancouver, British Columbia
Shantz Processing	Ingersol, Ontario
Sharpe & Co.	Regina, Saskatchewan
Shopsy's Foods	Weston, Ontario
Siena Foods Ltd.	Toronto, Ontario
Skyline Farms	Kettleby, Ontario
Smith Corned Beef & Sausage Co.	Winnipeg, Manitoba
St. Raymond Poultry	Hull, Quebec
Sterling Packers	Toronto, Ontario
Sussex Poultry	Sussex, New Brunswick
Swift Canadian	Toronto, Ontario
Tailette & Fils	Montreal, Quebec
Taillefer & Fils	Montreal, Quebec
Tend-R-Flesh Poultry	Petersburg, Ontario
Terminal Beef Co.	Toronto, Ontario
Thames Valley Poultry	Chatham, Ontario
Tops Continental	Hamilton, Ontario
Town Packers Ltd.	Toronto, Ontario
Union Kosher	Toronto, Ontario
Union Packers	Calgary, Alberta
Vancouver Sausage	Vancouver, British Columbia
Vaunclair Purveyors	Toronto, Ontario
Wald Produce	Palmerston, Ontario
Whyte Packing Co.	Stafford, Ontario
Willow Farms	Clearbrook, British Columbia
Wilsil Ltd.	Montreal, Quebec
Wong Wing Food Prod.	Montreal, Quebec
York Farms	Toronto, Ontario

Q. Senator Thorvaldson, page 483: Is it possible to make a calculation concerning the effect certain costs (labour, fringe benefits, taxes, etc.) have had on the inflation in food prices?

A. The following notes were submitted by Dominion Stores Limited in reply:

In our brief on page five we stated that the current inflation in food prices has been sparked first by rising costs of merchandise purchased, and secondly by increased operating expenses. As an example of this we cited the shortage of labour driving up the price paid for labour which eventually drives up the final price paid by the consumer for a product. In economic terms this might be referred to as a "cost push" type of inflation as opposed to a "demand pull" type of inflation which occurred in the period shortly after the Second World War when the demand for goods outstripped supply. Now the demand for the factors of production (e.g. labour) outstrips supply. In our business, labour costs account for approximately half of our operating expenses and, therefore, our overall costs are very sensitive to any change in labour costs.

Below we have noted a number of significant points which substantiate this view in our Company:

1. From June 1961 to June 1966 the food price index increased by 16.8 per cent.
2. Our basic wage per full-time employee as illustrated in Exhibit E-2 increased by 28.6 per cent, over the past five years.
3. Fringe benefits including vacations with pay, pensions and other important welfare benefits per employee increased by 38.4 per cent over the past five years.
4. Business taxes increased over the last five years by 19.7 per cent as illustrated in Exhibit F.
5. Property taxes increased by 38.7 per cent over the past five years.
6. Equipment costs (which include a factor for Federal Sales Tax, Provincial Sales Tax, increased construction costs and improved quality of equipment) increased by 34.4 per cent over the past five years.

In all these cases it is clear that the rate of increase in these basic factors of our operating cost was greater than the rate of increase in the food price index. The factors other than labour are mentioned as supplementary contributors to inflation.

We believe that at the present time there is an acute shortage of labour in Canada and especially trained labour. Therefore, any long-run solution to the problem of inflation must encompass this factor. In this context we would support a government policy of increased immigration and especially trained labour.

Retail Food Definitions

Mark-up is the initial difference between what the grocery store pays for its goods and the full regular consumer price at which they are sold. It is measured as a percentage of the consumer price.

Maximum Obtainable Margin is the same as mark-up. It can be stated as the used portion of the inventory times the consumer price. It is expressed as a percentage of the consumer price.

Margin Loss consists of loss factors such as pricing errors, breakage, spoilage, price reductions, advertised prices, pilferage, shrinkage, and other similar items. It is the difference between Maximum Obtainable Margin and Net Margin before expenses (see below).

Net (Realized) Margin before operating expenses is the Maximum Obtainable Margin minus the Margin Loss. It represents the sum of money with which the business is operated after paying for the used portion of the inventory. It is the sum of operating expenses, taxes, and profit.

Operating Expenses are those expenses which directly relate to major activities of the business such as the cost of labour, rent, utilities, maintenance, depreciation, advertising and local taxes.

ATLANTIC WHOLESALERS LIMITED

Proceedings No. 12, Pages 770—785

Supplementary information supplied by the Company arising out of their hearing before the Committee on October 27, 1966:

Q. Mr. Urie, page 770: Could you provide a corporate list of shareholders?

A. On September 15, 1966, the principal shareholders and their holdings were:

75,000 Class "A" shares issued—Harbour Investments Limited—48,679

7,500 Class "B" shares issued—Harbour Investments Limited—7,234
Other individual shareholders have relatively minor shares of the total.

Q. Mr. Urie, page 773: Request for financial statements for Foodwide of Canada Limited for the last four years.

A. These statements have been filed with the Committee.

Q. Mr. Urie, page 782: Could you provide us with figures for the last five years showing the gross amounts of your advertising, the payments from retailers, and the payments to you by suppliers, so that there will be gross amounts and net amounts detailed.

A. The statement supplied by Atlantic Wholesaler Limited is shown below:

Corporate Advertising Expenditure
(Wholesale and Voluntary Groups)
for fiscal year ending March 31st

	1966	1965	1964	1963
Gross Advertising Expenditure ...	$ 498,000	$ 398,000	$ 404,000	$ 295,000
Net Advertising Expenditure	$ 112,000	$ 175,000	$ 154,000	$ 117,000
As percent of Wholesale Sales	1966	1965	1964	1963
Gross Advertising Expenditure	0.93	0.78	0.83	0.65
Net Advertising Expenditure	0.21	0.34	0.32	0.26

Q. Mr. Urie, page 783: Could you file with us a copy of your franchise agreements with dealers?

A. The text of the agreement is as follows:

SCHEDULE "A"

SAVE-EASY CONTRACT

THIS AGREEMENT made this ..... day of ..... 196.. .

BETWEEN: ATLANTIC WHOLESALERS, LIMITED, of ..... hereinafter called the "Wholesaler" and ..... of ..... hereinafter called the "Retailer".

NOW THEREFORE in consideration of the mutual promises hereinafter contained the parties do convenant and agree with each other as follows:

1. The Wholesaler hereby grants unto the retailer for the term of this agreement the right to use the name "SAVE-EASY".

2. The Wholesaler agrees to make available for purchase by the retailer a representative stock of dry groceries including tobacco and confectionery, also fruits and vegetables and to give the retailer from time to time information as to the market conditions and such other advise and information as may be of assistance to the retailer's business.

3. The wholesaler agrees to suggest plans and lay out of shelving and fixtures according to Save-Easy store standards and to assist the retailer with suggestions as to the display of goods, the marketing of same for sale, and furnish other merchandising ideas to enable the retailer to operate in conformity with other stores in the group.

4. The wholesaler agrees to furnish a representative to call upon the retailer from time to time and advise him regarding merchandising methods and to act in the capacity of supervisor.

5. The retailer agrees to conform with and abide by the general advertising and merchandising procedure featured by the Save-Easy group. The retailer further agrees to co-operate during the time special incentives are introduced to increase consumer store traffic.

6. The retailer agrees to display the official Save-Easy signs and to remove all other signs not acceptable to the programme. The wholesaler will furnish all Save-Easy signs on a rental basis.

7. The retailer agrees to keep his store in a condition satisfactory to the wholesaler at all times.

8. The retailer agrees to buy from or through the wholesaler all fruits, vegetables and produce and all merchandise known as dry groceries, including tobacco and confectionery during the term of this agreement and not to purchase any goods in such categories from any other wholesaler or supplier. The retailer further agrees to channel all drop shipments through the wholesaler and not to buy from speciality men without the wholesaler's consent. The retailer further appoints the wholesaler his exclusive purchasing agent during the term if this agreement.

9. The retailer agrees to participate in the wholesaler's meat programme, cooperate fully with the wholesaler's meat supervisor and to pay the service charge currently in effect.

10. A retailer accounting service is available for the retailer at a nominal monthly fee. In order that the retailer keep informed on the financial progress of his operation it is strongly recommended that he take advantage of this service.

11. The retailer agrees to pay his account in full each week.

12. This agreement shall be effective for a period of two years from the date hereof. At the expiration of the said term, the agreement shall be renewed for one year and continue in force from year to year subject to all the covenants, terms and conditions herein expressed. The wholesaler or retailer may terminate this agreement by giving thirty days notice in writing.

13. The retailer covenants with the wholesaler that he will not, while this agreement is in effect, sell his business by bulk sale or other transfer to any other purchaser without first offering the same to the wholesaler at a price at which the retailer is willing to sell to any other purchaser. Such offer shall be made in writing delivered by the retailer to the wholesaler and such offer shall include the name of the proposed purchaser of the business, the price and the assets to be sold and shall offer such assets to the wholesaler at such price. Therefore the wholesaler shall have thirty days in which to determine whether or not to purchase such assets. The offer may be accepted by notice in writing delivered to the retailer and may be accepted by the wholeasler or a nominee of the wholesaler. Upon delivery of notice of such acceptance a contract for sale and purchase shall be deemed to exist between the retailer and the wholesaler or such nominee for a bulk sale to take place not later than thirty days after such notice of acceptance in accordance with the provisions of the Bulk Sales Act. Where the offer is accepted by a nominee of the wholesaler, the wholesaler shall be deemed to be a guarantor of payment of the purchase price by the nominee.

In the event that such offer is not accepted within thirty days as above provided, the retailer may sell his stock-in-trade and business at or above but not below the price mentioned in such offer at any time within six months from date that such offer was given to the wholesaler but not afterwards without making a fresh offer to the wholesaler.

IN WITNESS WHEREOF the parties have hereunto set their hand and seals on the day and year first above written.

Witness_____ _____
Retailer

ATLANTIC WHOLESALERS, LIMITED

Witness_____ .....

.....

Q. Mr. Olson (page 785) asked for additional information about the costs of selected commodities listed in Table 10 of the D.B.S. publication "Prices and Price Indexes".

A. The information requested is as follows:

SCHEDULE "B"

Item	Unit Size	Wholesale Cost 1964	1965	1966
Milk, evaporated 16 oz.	48's	7.00	7.10	7.35
Powdered Skim Milk 3 lb. (Milko)	12's	11.25	12.25	12.25
Butter, creamery, 1st grade lb.		.55	.58	.65
Cheese, plain, processed, ½ lb. (Kraft)	12's	3.83	4.01	4.13
Salmon, canned, fcy. pink 8 oz.	48's	14.19	15.84	15.84
Margarine lb. (Rose)	36's	7.56	9.36	9.72
Lard, pure lb.	36's	8.46	9.18	9.54
Shortening lb. (Domestic)	36's	12.34	12.84	13.06
Salad Dressing 16 oz.	12's	4.48	4.60	4.60
Flour, white, all purpose lb.	100's	8.03	8.03	8.43
Corn Flakes, pkg. 8 oz.	36's	6.71	6.71	6.71
Macaroni, dry, pkg. lb.	24's	4.30	4.30	4.30
Cake Mix, white, pkg. 14-16 oz. (Duncan Hines)	12's	4.80	4.70	4.70
Soda Crakers, pkg. lb. (Marvens)	24's	7.31	7.49	7.49
Sugar, granulated lb.	100's	8.56	6.76	6.16
Jam, strawberry, 24 oz. jar (pectin) (Talisman)	12's	5.79	6.00	6.00
Jam, strawberry, 24 oz. jar (pure) (Rose)	12's	8.42	8.03	8.33
Honey, No. 1 White, 2 lb. (B'Kist)	12's	6.75	6.95	7.30
Tomatoes, canned, choice 28 oz. (Aylmer)	24's	6.73	6.73	7.33
Peas, canned, choice 15 oz. (Graves)	24's	3.45	3.65	3.65
Corn, canned, cream, choice 20 oz. (York)	24's	4.43	4.39	4.62
Infants' Food, vegetable, tin (Heinz) 5 oz.	24's	2.22	2.32	2.48
Beans, Pork & Tomato Sauce, 15 oz. (Graves)	24's	3.51	3.51	3.86
Soup, Vegetable 10 oz. (Campbells)	48's	5.60	5.60	5.95
Tomato Juice, fcy. 20 oz. (Aylmer)	24's	3.45	3.10	3.60
Tea Bags, Orange Pekoe, pkg. 60's	24's	19.20	19.20	19.20
Coffee, med. quality, pkg. lb. (C&S)	12's	9.96	9.96	9.96
Coffee, instant, dried, jar, 6 oz. (M.H.)	24's	27.50	26.30	26.30
Tomato Catsup, bottle 11 oz. (Aylmer)	24's	4.50	4.50	4.75
Peanut Butter, plain, jar 16 oz. (Sch.)	12's	4.50	4.85	4.90
Pickles, swt. mxd. jar 16 oz. (Rose)	12's	3.79	3.58	3.82
Jelly Powders, flavored, pkg 3 oz.	36's	3.50	3.50	3.50
Baking Chocolate, Unsweetened bar 8 oz.	24's	12.00	12.00	12.00
Total Cost		244.67	247.92	252.48
Yearly Percentage Increase			1.33	1.84
Period Increase			3.19%	

H. J. HEINZ COMPANY OF CANADA LTD.

Proceedings No. 13, Pages 843-870

Supplementary information supplied by the Company arising out of their hearing before the Committee on November 1, 1966:

Q. Mr. Urie (page 843) asked for information on the Company's co-operative advertising program.

A. The Company's contract on co-operative merchandising agreement—1967 is shown below:

EXHIBIT I

PREPARE IN FOUR COPIES
1. MARKETING DIVISION
2. CUSTOMER
3. ACCOUNTING DEPT.
4. REGIONAL OFFICE

HEINZ 57
CO-OPERATIVE MERCHANDISING AGREEMENT - 1967

Account _____ Food Retail Outlet _____ No. of Stores _____

TERMS

This agreement will cover the period from the 1st day of _____ to the 31st day of December, 1967 and may be cancelled by either party upon written notice.

PROMOTIONS

The account agrees to feature (advertise, display, merchandise and promote) Heinz Products as outlined, attached and accepted by Heinz.

FUNDS AVAILABLE

(Complete either A or B as applicable)

A. CHAIN STORE OR LARGE BUYERS

(1) $_____ Baby Food
$_____ Other Varieties representing 1.75% of purchases of Heinz Products sold through retail trade for 12 months. Period ending April 27, 1966.
(2) Not more than 15% of fund to be spent in any one month.
(3) The account to inform Heinz of dollar value and sources of supply of all indirect purchases of Heinz products.
(4) Unused funds remaining at the end of the agreement period will be cancelled

B. WHOLESALERS SPONSORING VOLUNTARY AND CO-OPERATIVE GROUPS

(1) $_____ Baby Food
$_____ Other Varieties representing 1.75% of_____ % of purchases of Heinz Products. This % is determined as the ratio of Total Sales to Sponsored Groups for Total Sales of Wholesaler

a 12 month period ending April 27, 1966.
(2) Not more than 15% of fund to be spent in any one month.
(3) Unused funds remaining at the end of the agreement period will be cancelled.

INVOICING AND PAYMENT

The account will submit invoice for payment at the conclusion of each promotion, supported by proof of advertising. Deductions from Heinz regular sales invoices for merchandise will not be allowed.

MISCELLANEOUS

This agreement is available to all accounts.
This agreement terminates all previous Co-operative Merchandising and/or Advertising Agreements.
This agreement becomes valid when countersigned by the Marketing Division, H. J. Heinz Company of Canada Ltd. Changes in promotions arranged must have prior approval of Heinz Marketing Division.

APPROVALS

Account_____

Address_____

City_____

Authorized by_____

Date_____

H. J. HEINZ COMPANY OF CANADA LTD.

Regional Office

Address_____

City_____

Approved by_____ Date_____

Marketing Division

Approved by_____ Date_____

Form 1134B June 1966

Q. Mr. Urie (page 844) asked a question to determine the total promotional expense.

A. Additional co-operative merchandising expenses in 1965 were paid to 8,771 retail stores and amounted to $694,042 or 1.1 per cent of gross sales. (See Appendix 6, page 879.)

Q. Mr. Urie (page 845) asked for annual expenditures for the last five years on distributing coupons and samples.

A. The complete reply is shown below:

	1961	1962	1963	1964	1965
Samples	$ 81,731	$114,467	$100,645	$119,266	$134,486
Coupon	178,555	328,411	379,835	184,695	272,933
Redemptions					

Percentage of redemption varies from 20 per cent on coupons mailed direct to new mothers to less than ½ of 1 per cent on coupons printed in newspapers on a nationwide basis.

Q. In response to questions by Mr. McCutcheon (page 858) and Mr. Basford (page 858) the Company undertook to supply numbers of hourly rated male employees and the number of male executive employees for five years. (See Appendix 5, page 878.)

A. The average number of male employees for the period are:

	Male Hourly	Male Executive
1961	712	39
1962	739	43
1963	765	47
1964	824	47
1965	969	46

Q. On a further request by Mr. Saltsman (page 859), the Company agreed to provide an analysis showing the relationship between wages for hourly paid employees and gross sales.

A. The wages of hourly paid employees expressed as a percentage of gross sales is given below:

Wages for Hourly Paid Employees Expressed as a Percentage of Gross Sales

(000's omitted)

	Wages	Gross	Per cent
1961	$ 4,004	$ 50,000	8.0
1962	4,414	53,000	8.3
1963	4,208	55,000	7.7
1964	4,877	59,000	8.3
1965	6,121	61,000	10.0

Q. Mr. Basford (page 869) requested information relating to costs of display space in retail stores.

A. The Company has filed with the Committee sample merchandising agreements with wholesalers and retailers.

Q. Mr. Basford (page 869) asked for television costs as a percentage of gross sales historically from 1965.

A. Annual television advertising expenditures are provided by the Company as follows:

Television Advertising

(000's omitted)

	Amount	Sales	%
1957	$ 363	$40,000	.9
1958	64	42,000	.1
1959	—	45,0000	—
1960	228	46,000	.5
1961	538	50,000	1.1
1962	531	53,000	1.0
1963	761	55,000	1.4
1964	901	59,000	1.5
1965	1,070	61,000	1.7

Q. Senator Croll (page 870) inquired about the costs of launching a new product such as soup mix.

A. Percentage expenditures related to sales dollars have been provided as follows:

Soup Mix

% of Sales Dollars spent in launching this product

	Media & Other	Deals	Total
1961	64.0	—	64.0
1962	39.4	3.3	42.7
1963	39.5	16.1	55.6
1964	42.5	4.7	47.2
1965	4.5	15.0	19.5

BURNS FOODS LIMITED, CALGARY

Proceedings No. 15, Pages 988-1011

Supplementary information supplied by the Company arising out of their hearing before the Committee on November 7, 1966:

Q. Mr. Urie, page 988: An inquiry relative to percentages of net profits in relation to sales for the parent company and each of the subsidiaries for 1963, 1964 and 1965.

A. The reply to this question is as follows:

	Sales '000'	Net Profit	%
1963			
Meat Operations	$134,589	$139,631	.10%
Palm Dairies Limited	25,021	367,860	1.47
Scott National Co. Ltd.	30,221	114,148	.38
Capital Gains	—	41,648	
	$189,831	$663,287	.35%

1964			
Meat Operations	$127,337	$318,523	.25%
Palm Dairies Limited	25,720	419,937	1.63
Scott National Co. Ltd.	32,049	250,216	.78
Capital Gains	—	109,990	
	$185,106	$1,098,660	.59%
1965			
Meat Operations	$138,185	$(76,797)	(.06)%
Palm Dairies Limited	27,574	80,146	.29
Scott National Co. Ltd.	34,297	250,996	.73
Capital Gains	—	372,380	
	$200,056	$626,725	.31%

Q. Mr. Urie, page 990 and page 1010: requested a list of shareholders of the company holding in excess of 5 per cent of the total issued shares and the identification of the principals of Roytor & Co.

A. The question has been answered by the Company thus:

Shareholders holding in excess of 5 per cent of outstanding shares—Roytor & Co., 353,009 shares.

We would point out that Roytor & Co. hold shares in trust for Mr. R. Howard Webster and the A. B. Hill Estate.

Q. Mr. Urie, page 991, desired information on the dispersion of cash flows (1) the proportion diverted towards increased assets and (2) the proportion accounted for by increased bank loans and the disappearance of funded debt.

A. The statement supplied by Burns Foods Limited is shown here:

SCHEDULE "A"

Consolidated Statement of Source and Application of Funds

	1963
FUNDS PROVIDED BY:	
Operations	
Net earnings for the year	$ 663,287
Add depreciation and other charges not involving a cash outlay—net	1,871,580
Total	$ 2,534,867
Proceeds on sale of fixed assets	376,968
Other	85,636
Total	$ 2,997,471

FUNDS APPLIED TO:	
Purchase of fixed assets	$ 3,134,822
Payment of funded debt	328,228
Other	79,015
Total	$ 3,542,065
Decrease in working capital	$ 544,594

1964

FUNDS PROVIDED BY:	
Operations	
Net earnings for the year	$ 1,098,660
Add depreciation and other charges not involving a cash outlay—net	2,202,799
Total	$ 3,301,459
Proceeds on sale of fixed assets	397,959
Transfer of allowances for doubtful debts and income taxes to earning retained and employed in the business	243,020
Other	132,955
Total	$ 4,075,393
FUNDS APPLIED TO:	
Purchase of fixed assets	$ 4,482,390
Payment of funded debt	30,695
Other	172,466
Total	$ 4,685,551
Decrease in working capital	$ 610,158

1965

FUNDS PROVIDED BY:	
Operations	
Net earnings for the year	$ 626,725
Add depreciation and other charges not involving a cash outlay—net	2,040,268
Total	$ 2,666,993
Proceeds of sale of fixed assets	766,975
Long-term debt incurred during the year	285,122
Other	190,591
Total	$ 3,909,681

FUNDS APPLIED TO:

Purchase of fixed assets	$ 4,611,013
Payment of funded debt	319,500
Other	245,032
Total	$ 5,175,545
Decrease in working capital	$ 1,265,864

Q. Mr. Urie, page 993: An inquiry relative to volume incentive and a subsequent performance contract.

A. The text of the Company Performance Plan is as follows:

SCHEDULE "B"

FEBRUARY 24, 1966

BURNS FOODS LIMITED

PERFORMANCE PLAN

MARK IV

MEAT ONLY

Burns Foods Limited offer the following Performance Contract for promotional advertising to all customers who are prepared to perform under the stipulated conditions listed herein.

In order to qualify, the customer agrees to purchase, advertise and promote a minimum of 4 products from 4 different groups of the following Burns meat products:

Burns Sliced Side Bacon
Burns Sliced Back Bacon
Burns Smoked Boneless Hams
Burns Smoked C.O.V. Dinner Hams
Burns Smoked C.O.V. Chateau Hams
Burns Smoked Cottage Rolls
Burns Sliced Smoked Ham or Smoked Ham Steaks
Bruns S.P., C.O.V. Half Cottage Rolls
Burns S.P., C.O.V. Back Bacon Chunks
Burns Pure Pork Sausage
Burns Wieners
Burns F.S. Sliced Cooked Ham—6 oz.
Burns F.S. Sliced Luncheon Meats—6 oz. and 16 oz.
Burns Sliced Corned Beef—2 oz. or 4 oz.
Burns C.O.V. Ring Sausage—all types

Advertising must be by television, radio, newspapers or regularly distributed flyers. Other media will not qualify without prior written approval from Burns Foods Limited—Marketing Division.

The customer must advertise and promote a minimum of 4 products and all such products must be prominently displayed in his stores during the week of the promotion.

All products must be delivered to the stores during the two weeks previous and the week of the promotion.

Prices on all products must be finalized within a maximum of fourteen days and a minimum of seven days prior to the date of commencement of the promotion.

All Burns branded processed meat items advertised and promoted during the week of the ad will carry a promotional allowance of 1¢ per lb.

All Burns fresh meats—i.e. Beef, Veal, Lamb and Pork—will carry $\frac{1}{8}$¢ per lb. promotional allowance.

Proof of performance in the form of flyers, newspaper tear sheets, radio or T.V. scripts, must be forwarded to Burns Foods Limited, National Marketing Manager, upon receipt of same by the local sales office.

Provided that 4 or more Burns branded processed meat items are advertised and promoted, all other Burns branded processed meat items purchased for delivery during the week of the promotion, and the two weeks preceding the promotion, but not advertised, will carry a promotional allowance of one half cent per pound.

Amount at least equal to these allowances must be spent for general in-store merchandising and the promotion of Burns products during the week of the promotion, and the two preceding weeks.

At the buyers' option, these allowances will either be taken off the face of the invoice by Burns Foods Limited at the time of preparing the invoice, or paid by cheque to the customers' buying office. However, the customer may not make deductions from payment of Burns Foods Limited invoices to cover payments under this contract.

The Performance Plan is available on an every-other-month basis and a maximum of 6 times per year for any individual customer, either as a single customer or as a chain group.

Customers desiring to avail themselves of the Plan should enter into a Performance Plan Contract with Burns Foods Limited.

This Performance Plan is subject to change or cancellation by Burns Foods Limited at any time without notice.

This Plan is available to all operators who can perform according to the conditions of the contract.

MARKETING DIVISION

Q. Mr. Smith, page 999: How much would a chain store pay for a six-ounce package of cooked sliced ham?

A. The Company has provided chain store list prices in the following manner:

SCHEDULE "C"

CALGARY

Cooked Ham Selling Prices—Oct. 1966

	Chain Store List
October 3/7	$ 1.44 lb.
October 11/14	1.44 lb.
October 17/21	1.44 lb.
October 24/28	1.33 lb.

Q. Mr. Basford, page 1000 and page 1011: A statement from the firm providing hog and cattle prices at Calgary and Toronto for the first complete week of February, 1965, the first week of February, 1966 and the last complete week of October, 1966, and the actual selling prices for beef, pork and primary cuts for respective periods.

A. The Company has replied in detail below:

SCHEDULES "D-D1"

"D"

CALGARY

Costs—1965

	Feb. 1	Feb. 2	Feb. 3	Feb. 4	Feb. 5	Chain Store List
Ccs Hogs Dressed	23.28	23.28	23.69	23.94	23.90	
Hams	34.86	34.86	35.56	35.96	35.92	
Bellies	25.86	25.86	26.56	26.96	26.92	
Backs	47.86	47.86	48.56	48.96	48.92	
Butts	29.86	29.86	30.56	30.96	30.92	
Picnics Shank-On	18.61	18.61	19.31	19.71	19.67	
Loins	44.21	44.21	44.68	44.95	44.92	
Red Steers Dressed	37.10	36.85	37.02	36.94	37.06	

Costs—1966

	Jan. 31	Feb. 1	Feb. 2	Feb. 3	Feb. 4	
Ccs Hogs Dressed	39.66	39.66	40.36	40.69	40.28	
Hams	56.11	56.11	57.24	57.78	57.11	65.00
Bellies	53.61	53.61	54.74	55.27	54.61	62.00
Backs	66.61	66.61	67.74	68.27	67.61	76.00
Butts	50.61	50.61	51.74	52.27	51.61	56.50
Picnics Shank-On	38.61	38.61	39.74	40.27	39.61	45.00
Loins	58.62	58.62	59.37	59.72	59.29	62.00
Red Steers Dressed	45.41	45.95	45.27	44.59	43.90	48.50
	Oct. 24	Oct. 25	Oct. 26	Oct. 27	Oct. 28	
Ccs Hogs Dressed	32.93	32.93	31.48	30.85	30.85	
Hams	41.43	41.43	39.87	39.83	39.83	49.00
Bellies	40.43	40.43	38.87	38.83	38.83	56.00
Backs	67.43	62.43	65.87	65.83	65.83	79.00
Butts	44.43	44.23	41.87	41.83	41.83	50.00
Picnics Shank-On	32.43	32.43	29.87	29.83	29.83	40.00
Loins	59.45	59.45	58.41	58.39	58.39	63.00
Red Steers Dressed	41.93	41.91	41.53	41.28	41.40	44.25

Records not available for selling prices in February 1965.
Costs submitted do not include overhead.
25 November, 1966.

"D 1"

TORONTO

Costs—1965

	Feb. 1	Feb. 2	Feb. 3	Feb. 4	Feb. 5	Chain Store List
Ccs Hogs Dressed	28.84	29.00	28.61	28.55	29.91	
Hams	44.93	45.20	44.55	44.44	46.71	
Bellies	37.56	37.84	37.16	37.05	39.42	
Backs	59.81	60.09	59.42	59.31	61.66	
Butts	39.54	39.81	39.16	39.05	41.32	
Picnics	32.94	33.22	31.49	32.44	34.77	
Loins	49.13	49.30	48.89	48.83	50.24	
Red Steers Dressed	41.46	41.48	42.00	41.91	41.63	

Costs—1966

	Jan.31	Feb. 1	Feb. 2	Feb. 3	Feb. 4	
Ccs Hogs Dressed	43.35	44.78	44.19	43.83	43.64	
Hams	64.86	67.24	66.25	65.65	65.34	72
Bellies	61.12	63.61	62.58	61.96	61.63	67
Backs	80.45	82.91	81.89	81.27	80.95	86
Butts	62.53	64.90	63.92	63.32	64.04	66
Picnics	52.34	54.78	53.77	53.16	53.90	53
Loins	63.74	65.22	64.61	64.23	64.04	69
Red Steers Dressed	50.60	50.69	50.37	51.71	50.01	51
	Oct. 24	Oct. 25	Oct. 26	Oct. 27	Oct. 28	
Ccs Hogs Dressed	33.49	33.67	33.54	34.10	34.35	
Hams	47.44	47.75	47.53	48.46	48.87	57
Bellies	47.77	48.09	47.86	48.83	49.27	60
Backs	72.60	72.91	72.69	73.65	74.08	86
Butts	47.73	48.03	47.81	48.74	49.16	60
Picnics	39.24	39.55	40.39	40.29	40.71	45
Loins	68.65	58.83	58.70	59.28	59.54	64
Red Steers Dressed	47.92	47.96	47.69	47.51	47.42	49½

Records not available for selling prices in February 1965.
Costs submitted do not include overhead.

25 November, 1966.

Q. Mr. Allmand, page 1007: Burns' share of the market in the Western Provinces and in Canada as a whole.

A. The reply to this question has been filed with the Committee.

Q. Mr. Basford, page 1009, inquired respecting list prices of beef on the Vancouver market.

A. Beef prices in the Vancouver market are not available in Company records for the requested five year period but weekly chain store list prices for red steers from April 1965 are given here:

SCHEDULE "E"

As requested by Mr. Basford, we submit our Chain list on red steers f.o.b. Vancouver. Request was made to cover the last five years; unfortunately records were not available beyond April 12, 1965:

BEEF PRICE—CHAIN STORE LIST, RED STEERS

April	12/65	41	Nov.	1/65	43½	May	30	46
	19	42		8	44½	June	6	45
May	3	42		15	45		13	45
	10	43½		22	45		20	44½
	17	45		29	45½		27	44½
	24	46	Dec.	6	45½	July	4	44½
	31	46		13	45½		11	44½
June	7	46	Jan.	3/66	47		18	46½
	14	46		10	47		25	46½
	21	46		17	49	Aug.	1	47
	28	45		24	50		8	46
July	5	46		31	49		15	45
	12	46	Feb.	7	47½		22	45
	26	45½		14	47½		29	45
Aug.	9	45½		21	48	Sept.	5	45½
	16	45½		28	48		12	47
	23	44½	Mar.	7	48		19	48
	30	45		14	48	Oct.	3	48
Sept.	6	44½		21	46		10	46½
	13	44		28	46		17	46½
	20	44	Apr.	4	47		24	—
	27	44		11	46		31	46½
Oct.	4	44		18	45½			
	11	44		25	45½			
	18	44	May	2	45½			
	25	44		9	46			
				16	46			

25 November, 1966

Loblaw Groceterias Co. Ltd.—Proceedings No. 10.

Supplementary information supplied by the Company arising out of their hearing before the Committee on October 20, 1966:

SCHEDULE "A"

Nonoperating companies of George Weston Ltd.

Sunbeam Bakeries Ltd.
Jackson Newport Foods Ltd.
Montreal Biscuit Co.
Cartier Biscuits Ltd.
Philpotts Breads & Cakes Ltd.
Independent Biscuit Co.
Edmonton City Baking Ltd.
Merry Maid Studios Ltd.
W. Paterson Brantford Ltd.

Nonoperating companies of National Tea Co.

National Tea Co. (Del.)
National Food Stores (Del.)
Food Centre Stores Inc.
Standard Grocery Co.
Capitol Stores Inc.
Heinemann Foods Inc.
All American Stamp & Premium Corp.
Foodmart Inc.
Farmex Drugs Inc.
Schmidt's Bake Shop Inc.
Schneider's Modern Bakery Inc.

Nonoperating companies of Food Markets Holdings Ltd.

Super City Markets Ltd.
Big Discount Ltd.
Big Discount Foods Ltd.
Giant Discount Ltd.
Giant Discount Foods Ltd.
Super Discount Ltd.
Super Discount Foods Ltd.
Fine Fair Supermarkets Ltd.
Shop-Rite Stores Ltd.
Shelly Brothers Ltd.
Digby Wholesalers Ltd.
Gray's Wholesalers Ltd.
W. L. Hogan Ltd.
Summerside Fruit Co.
Hankins Fruit & Produce Co.
Hill Brothers Ltd.
Barnaby Store Ltd.
Atlantic Foods Ltd.
Schofields Realty Ltd.
Save-Easy Supermarkets Ltd.
Lucky Dollar Investments Ltd.
L. T. Cairns Co.
McKenzie, Irish & McDonald Ltd.
Gold Medal Products Ltd.
Macmar Fruit (Cornwall) Ltd.
Ramart Sales Ltd.
Ramart Properties Ltd.

Nonoperating companies of Dunedin Investments Ltd.

Associated Foods Stores Ltd.
Canada Nut (1951) Ltd.
Grand Union Markets Ltd.
Kadana Foods Ltd.
Kelly Douglas of Canada Ltd.
Market Basket (1960) Ltd.
Regal Fruit Products Ltd.
Squirrel Brand Products Ltd.
Superior Food Stores Ltd.
Sussex Manufacturing Ltd.
By'n' Save Food Stores Ltd.
Nelson Supermarkets Ltd.
P. W. Robertson Ltd.
Murray Jam Ltd.
Kingsway Frozen Foods Ltd.
Calvanus Catering Services Ltd.
Orient Tea Co.
Trade Roasting Co.
Red Scissors of Canada Ltd.
Lucky Green Co.
Peak Sales Aids Ltd.
Lion's Gate Merchandisers Ltd.
Owl Drug Stores Ltd.
Liggett Owl Drug Co.
Marrick Drug Stores Ltd.

SCHEDULE "B"

LOBLAW GROCETERIAS CO., LIMITED

Cost of Wages, including Fringe Benefits as a Percentage of Sales

Fiscal Year	Wage Cost % of Sales
1961-62	10.4
1962-63	10.6
1963-64	10.5
1964-65	10.3
1965-66	10.5

Note

In determining the percentage of total salaries and fringe benefits to reported Canadian Retail sales, a broad sample of representative companies was selected. This sample covered more than 66% of the total sales.

Due to the complex operations of the group, it is not practical to carry out this calculation with respect to all the retail sales. However, a general application of these percentages would give a close approximation of the total wage costs for the respective years.

SCHEDULE "C"

LOBLAW GROCETERIAS CO., LIMITED

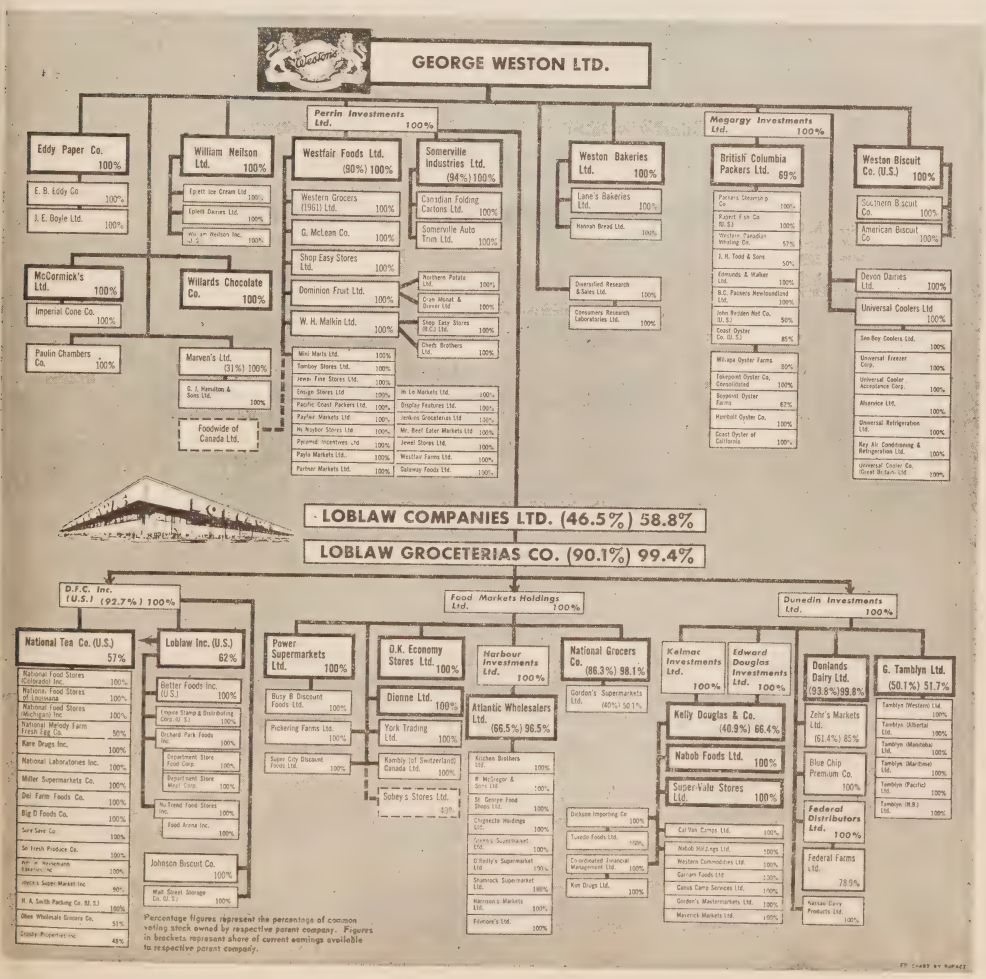
SUMMARY OF CANADIAN RETAIL OPERATIONS

Fiscal Year	Reported Sales	Profit Share	Percentage To Sales	Profit Per Share*
	(000,000)	(000)	%	$
1962	498	9,860	1.98	8.96
1963	522	10.022	1.92	9.33
1964	552	10,488	1.90	9.88
1965	580	11,136	1.92	10.62
1966	613	11,524	1.88	11.01

*Profit per participating shares (second preference and common) after dividends provided on a pro-rata basis on First Preference shares, A and B Series, applied to Reported Canadian Retail Profit.

Since the accounts of the company are prepared on a consolidated basis, the profit attributable to the reported Canadian retail sales is on an estimated basis. Carrying costs of investments in non-Canadian subsidiaries and dividends from such subsidiaries, subject to withholding taxes, are included in the above profit.

CHART "D"



First Session—Twenty-seventh Parliament

1966

PROCEEDINGS OF

THE SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON

CONSUMER CREDIT

(PRICES)

LIBRARY

No. 26

TUESDAY, DECEMBER 13, 1966

JOINT CHAIRMEN

The Honourable Senator David A. Croll

and

Mr. Ron Basford, M.P.

WITNESSES:

The Institute of Canadian Advertising: Mr. Bryan Vaughan, President; Mr. Wilfrid L. Charland, Membre Personnel; Mr. C. Warren Reynolds, Director; Mr. George G. Sinclair, 2nd Vice-President; Mr. John N. Milne, Personal Member; Mr. John M. Milne, 1st Vice-President.

Grocery Products Manufacturers of Canada: Mr. Philip Moyes, President; Mr. S. Roxan, Statistician.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1967

25342—1

MEMBERS OF THE SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON CONSUMER CREDIT

(PRICES)

For the Senate

Hon. David A. Croll, Chairman

the Honourable Senators

Carter,	Hollett,	O'Leary (*Antigonish-Guysborough*),
Cook,	Inman,	Thorvaldson,
Croll,	McDonald (*Moosomin*),	Urquhart,
Hastings,	McGrand,	Vaillancourt—(12).

For the House of Commons

Mr. Ron Basford, Joint Chairman

Members of the House of Commons

Allmand,	Duquet,	McLelland,
Andras,	Horner (*Acadia*),	O'Keefe,
Basford,	Irvine,	Olson,
Cashin,	Leblanc (*Laurier*),	Otto,
Choquette,	Lefebvre,	Ryan,
Clancy,	MacInnis,	Scott (*Danforth*),
Code,	Mandziuk,	Smith,
Crossman,	McCutcheon,	Whelan—(24).

36 members

Quorum 7

SUPPLEMENTARY ORDERS OF REFERENCE

Extract from the Votes and Proceedings of the House of Commons, September 9, 1966:—

"Mr. Sharp, seconded by Miss LaMarsh, moved,—That the Joint Committee of the Senate and House of Commons appointed by this House on March 15, 1966, to enquire into and report upon the problems of consumer credit, be instructed to also enquire into and report upon the trends in the cost of living in Canada and factors which may have contributed to changes in the cost of living in Canada in recent months;

And that a Message be sent to the Senate to acquaint Their Honours thereof and to request the concurrence of that House thereto.

And the question being proposed;

Mr. Pickersgill, seconded by Mr. McIlraith, moved in amendment thereto,—That the motion be amended by striking out the words "by this House on March 15, 1966" where they appear in the second line thereof and by inserting in the motion as the second paragraph the following:

"That the Committee have leave to sit notwithstanding any adjournment of this House;".

And the question being put on the said amendment, it was agreed to.

After debate on the main motion as amended, it was agreed to."

Extract from the Votes and Proceedings of the House of Commons, October 7, 1966:—

By unanimous consent, Mr. Basford, seconded by Mr. Allmand, moved,—That the First and Second Reports of the Special Joint Committee on Consumer Credit and Cost of Living, presented to the House on Friday, April 1 and Thursday, October 6, 1966, be concurred in.

After debate thereon, the question being put on the said motion, it was agreed to.

Accordingly, the said Reports were concurred in and are as follows:

FIRST REPORT

Your Committee recommends that seven (7) of its Members constitute a quorum, provided that both Houses are represented.

SECOND REPORT

Your Committee recommends that the House of Commons section of the said Committee be granted leave to sit while the House is sitting.

LÉON-J. RAYMOND,
Clerk of the House of Commons.

Extract from the Minutes of the Proceedings of the Senate, September 13, 1966:—

"The Honourable Senator Connolly, P.C., moved, seconded by the Honourable Senator Hugessen:

That the Senate do agree that the Joint Committee of the Senate and House of Commons appointed to enquire into and report upon the prob-

25342—1½

lems of consumer credit, be instructed also to enquire into and report upon the trends in the cost of living in Canada and factors which may have contributed to changes in the cost of living in Canada in recent months; and

That a message be sent to the House of Commons to acquaint that House accordingly.

After debate, and—

The question being put on the motion, it was—
Resolved in the affirmative."

Extract from Minutes of the Proceedings of the Senate, Tuesday, November 22, 1966:—

The Honourable Senator Connolly, P.C., moved, seconded by the Honourable Senator Beaubien (*Provencher*):

That the Third Annual Review of the Economic Council of Canada relating to Prices, Productivity and Employment, dated November 1966, which was tabled in the Senate today, be referred to the Special Joint Committee of the Senate and House of Commons on Consumer Credit and Cost of Living.

The question being put on the motion, it was—
Resolved in the affirmative.

J. F. MacNEILL,
Clerk of the Senate.

MINUTES OF PROCEEDINGS

TUESDAY, December 13, 1966.

Pursuant to adjournment and notice the Special Committee on Consumer Credit (Prices) met this day at 9.30 a.m.

Present: For the Senate: The Honourable Senators Carter, Croll (*Joint Chairman*), Inman, McGrand, O'Leary (*Antigonish-Guysborough*) and Thorvaldson.—6.

For the House of Commons: Allmand, Basford (*Joint Chairman*), Irvine, Lefebvre, MacInnis, Mandziuk, McCutcheon, McLelland, O'Keefe, Olson, Smith and Whelan.—12.

In attendance: Dr. R. Warren James, Special Assistant, Mr. John J. Urie, Q.C., Counsel. Mr. Marcel Joyal, Q.C., Associate Counsel.

On motion of the Hon. Senator Carter, seconded by Mr. Lefebvre, supplementary information submitted by Canada Packers Limited, Canadian Canners Limited, Colgate-Palmolive Limited, Couvrette et Provost Ltée., General Foods Limited, Gerber Products of Canada Limited, Kellogg Company of Canada Limited, Lever Brothers Limited, M. Loeb Limited, Steinberg's Limited and Western Grocers Limited was ordered to be printed as Appendix No. 12 to these proceedings.

The following were heard:

The Institute of Canadian Advertising: Mr. Bryan Vaughan, President; Mr. Wilfrid L. Charland, Membre Personnel; Mr. C. Warren Reynolds, Director; Mr. George G. Sinclair, 2nd Vice-President; Mr. John N. Milne, Personal Member; Mr. John M. Milne, 1st Vice-President.

At 1.00 p.m. the Committee adjourned.

At 3.00 p.m. The Committee resumed.

Present: For the Senate: The Honourable Senators Carter, Croll (*Joint Chairman*), Inman, McDonald (*Moosomin*), McGrand, O'Leary (*Antigonish-Guysborough*) and Thorvaldson.—7.

For the House of Commons: Messrs. Allmand, Basford (*Joint Chairman*), Choquette, MacInnis, McCutcheon, O'Keefe, Smith and Whelan.—8.

In attendance: Dr. R. Warren James, Special Assistant.

The following were heard:

Grocery Products Manufacturers of Canada:

Mr. Philip Moyes, President.

Mr. S. Roxan, Statistician.

At 6.00 p.m. the Committee adjourned to the call of the Joint Chairmen.

Attest.

John A. Hinds,
Assistant Chief, Senate Committees Branch.

THE SENATE

SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON CONSUMER CREDIT

EVIDENCE

OTTAWA, Tuesday, December 13, 1966.

The Special Joint Committee of the Senate and House of Commons on Consumer Credit met this day at 9.30 a.m.

Senator DAVID A. CROLL and Mr. RON BASFORD, M.P., Co-Chairmen.

Co-Chairman Senator CROLL: The meeting will come to order.

First, I want to table for the record supplementary information arising out of recent hearings before the committee from: Canada Packers Limited; Canadian Canners Limited; Colgate-Palmolive Limited; Couvrette et Prevost Ltée; General Foods Limited; Gerber Products of Canada Limited; Kellogg Company of Canada Limited; Lever Brothers Limited; M. Loeb Limited; Steinberg's Limited; and Western Grocers Ltd. That is some of the information for which we asked.

(*See Appendix No. 12*)

I would also like to have to have the concurrence of the committee to print some supplementary information of two or three other firms that may come in today or tomorrow, or within a few days, so that the record will be complete. Is it agreed?

MEMBERS OF THE COMMITTEE: Carried.

Co-Chairman Senator CROLL: We have before us this morning the Institute of Canadian Advertising. Mr. Bryan Vaughan, the President, is on my left. You have before you both the brief and "The Economic Implications of Advertising". Of course, the second document is an excellent reference, which will go into our library, and you all have copies. The brief will be placed on the record.

Mr. WHELAN: Mr. Chairman, I do not claim to have read thoroughly this document entitled "Economic Implications of Advertising," by Professor O. J. Firestone, but it is one of the best articles on this subject that I have ever seen. Is there no way by which this could also be printed in our proceedings?

Co-Chairman Senator CROLL: Mr. Whelan, our printing bills are running very high, and we have been trying to put on the record only that which we think is the most useful for all purposes. This is a very lengthy document, and I do not think we would be justified in having it printed.

Mr. WHELAN: It is a very good presentation of the subject.

Co-Chairman Senator CROLL: Yes, but every member has a copy, and there are copies in the library.

Mr. WHELAN: I think the public will be interested in it.

Co-Chairman Senator CROLL: You can leave it to the advertising people to bring it to the attention of the public.

Will you proceed, Mr. Vaughan.

Mr. Bryan Vaughan, President, Institute of Canadian Advertising: Thank you, Mr. Chairman. Honourable members of the Special Joint Senate-House Committee and ladies and gentlemen, when the Canadian Institute of Advertising was invited to appear before you today we welcomed this opportunity to endeavour to be of assistance to you in the very important assignment you have undertaken. We feel that your deliberations are going to be of considerable significance to all Canadians, and you may certainly be assured of our utmost co-operation in providing you with all the information we can make available.

I should like at this point to say just a word about our Institute. The Institute of Canadian Advertising, which is also incorporated as "l'Institut de la Publicité canadienne", is the trade and professional organization of the advertising agency industry in Canada.

There are 49 corporate members of I.C.A., including all of the major advertising agencies in this country. These agencies place on behalf of their clients, large and small, close to $400 million annually in Canadian media. Upwards of 200 senior personnel from these agencies are also members of the Institute, on a personal basis.

With me today are the officers of the Institute. On my left is Mr. C. Warren Reynolds, who is a director of I.C.A. and a director of Ronalds-Reynolds and Company.

Next to Mr. Reynolds is George G. Sinclair, the chairman of MacLaren Advertising Company Limited. Next to him is Mr. John M. Milne who is the First Vice-President of I.C.A. Then there is Wilfrid L. Charland, Chairman of McKim Advertising Ltd., and John N. Milne, who, in addition to a number of other things, is Vice-President of MacLaren Advertising Company Limited.

We have also with us our staff executive, Geoffrey W. Smith, C.A.A.P. This "C.A.A.P." may be of interest to you because Geoffrey Smith is one of the first graduates of our four-year course. It is a four-year extramural course, and over four hundred people have already taken it. This is one of the efforts that we are making as an organization to try to improve our professional standards.

I should like at this time to ask Mr. Charland to say a few words "en français".

M. Wilfrid L. Charland, Membre Personnel, l'Institut de la Publicité Canadienne: Monsieur le président, distingués représentants du Sénat et de la Chambre des Communes, mesdames et messieurs, tout d'abord une note d'explication. Vous avez reçu cette documentation. C'est assez volumineux. Vous avez remarqué sans doute une chose qui nous ennuie énormément; c'est que ces brochures ne contiennent pas de traduction française, que nous aurions voulu vous présenter ici aujourd'hui. Toutefois, nous avons, séparément, préparé l'introduction et les conclusions en français. Cela sera disponible, et je crois que M. Smith aura tout le nécessaire. Encore une fois, nous nous excusons. C'est assez volumineux, ce qui veut dire qu'il y a eu énormément de temps consacré à la préparation de ce mémoire. Je ne peux que m'en excuser et je le regrette énormément.

Si vous me le permettez, monsieur le président, je crois qu'il est entendu que je puis lire l'introduction en français.

Notre Association a été heureuse de recevoir, il y a un mois, une invitation à comparaître devant le Comité conjoint du Sénat et des Communes sur le crédit à la consommation et à présenter, entre autres sujets connexes, le rôle que joue la publicité dans l'économie canadienne, sa contribution à la croissance économique et au bien-être social, l'influence qu'elle exerce sur les prix et sa contribution à la satisfaction du consommateur.

Nous sommes très conscients de l'inquiétude qu'éprouvent les Canadiens devant le problème de la hausse des prix et de l'importance de cette enquête parlementaire. Tout comme nos clients, nous partageons cette inquiétude concernant la montée des prix de revient, car elle touche à presque tous les aspects du commerce. A titre de conseils en publicité, nous accueillons avec plaisir cette occasion d'offrir au Comité toutes nos connaissances sur la portée économique et sociale de la publicité et de présenter des points de vue pertinents basés sur notre expérience.

Permettez-nous tout d'abord de décrire brièvement aux membres du Comité le rôle que notre Association joue dans ce domaine complexe qu'est la publicité.

L'institut de la Publicité canadienne, constitué également en corporation sous le nom de *The Institute of Canadian Advertising*, compte 49 membres, tous ces membres sont des agences de publicité en affaires au Canada. Ces membres versent quelque $400 millions tous les ans aux différents médiums de publicité.

Notre tâche primordiale consiste à planifier, à créer et à distribuer des campagnes de publicité au nom de nos clients, en l'occurrence des maisons d'affaires, petites et grandes, des institutions, des associations et des gouvernements.

Bien que nos membres étudient ensemble certains problèmes industriels, ils se font vigoureusement concurrence en affaires. Cette concurrence, la multiplication des raffinements apportés aux points de vente et l'accroissement des frais généraux ont ouvert la voie, particulièrement au cours des années d'après-guerre, à des études et à des recherches scientifiques poussées afin de garantir le rendement maximum des frais publicitaires. Nos members, individuallement ou par l'entremise de l'Institut, ou d'autres organismes, travaillent à améliorer l'efficacité de la publicité par:

(i) l'étude scientifique des marchés, ou analyses géographiques, sociales et économiques des besoins et des préférences du consommateur, afin d'établir la demande actuelle et future de divers genres de produits et de services.

(ii) l'étude scientifique des médiums qui analyse et compare l'efficacité des divers moyens de communication en regard des clients actuels ou en puissance.

(iii) l'étude scientifique de la publicité qui évalue, en fonction du degré de lecture et d'autres résultats, l'efficacité des moyens de communication choisis et des techniques de communication employées.

(iv) l'organisation hors faculté de cours très advancés de publicité.

(v) la publication d'un journal professionnel qui s'appelle *Stimulus*.

En qualité d'agences de publicité, nous travaillons constamment à améliorer les services offerts à nos clients et à suivre certains préceptes éthiques et professionnels. En annexe, on trouvera nos Règles de conduite, le Code canadien des standards de la publicité, un apreçu des cours éducatifs donnés, ainsi que la description des recherches scientifiques et autres activités connexes auxquelles nous participons de concert avec d'autres organismes.

Nous témoignons auprès du comité conjoint du Sénat et des Communes sur le crédit à la consommation et présentons nos points de vue sous les dix rubriques suivantes:

1. La définition de la publicité.
2. Le rôle de la publicité.
3. Les avantages de la publicité.
4. Est-ce que la publicité est un gaspillage?
5. L'autoréglementation de la publicité.
6. La réglementation publique de la publicité.
7. La publicité à l'échelle nationale et les marques privées.

8. La publicité et la hausse des prix.
9. La taxe de publicité.
10. Conclusion.

Nous avons cru que les membres de ce comité s'intéresseraient non seulement à notre point de vue mais aussi à l'analyse du rôle de la publicité, vu par un économiste indépendant. C'est pourquoi nous avons demandé au Professeur O. J. Firestone, vice-doyen de la faculté des Sciences sociales de l'Université d'Ottawa, de préparer une étude scientifique sur «la portée économique de la publicité». Le professeur Firestone est l'auteur du livre *Broadcast Advertising in Canada, Past and Future Growth*, récemment publié, et de plusieurs autres livres traitant de l'économie.

Nous espérons qu'une telle étude indépendante sera utile au Comité conjoint du Sénat et des Communes sur le crédit à la consommation et nous présentons ce document du professeur Firestone séparément et à titre de service public.

Respectueusement soumis.

L'Institut de la Publicité canadienne.

Mr. VAUGHAN: Thank you, Mr. Charland. Our brief is as follows:

The Institute of Canadian Advertising, also incorporated as "l'Institut de la Publicité canadienne", is the trade and professional organization of the advertising agency industry in Canada.

There are 49 Corporate Members of ICA including all of the major advertising agencies in this country. These agencies place on behalf of their clients, large and small, close to $400,000,000 annually in Canadian media. Upwards of 200 senior personnel from these agencies are also members of the Institute, on a personal basis.

Representing the Institute here today are the following:

Bryan Vaughan,	President, ICA, and President of Vickers & Benson Ltd.
John M. Milne,	1st. Vice-President, ICA, and President of Pemberton, Freeman, Mathes and Milne Limited
George G. Sinclair,	2nd. Vice-President, ICA, and Chairman and President of MacLaren Advertising Company Limited
C. Warren Reynolds,	Director, ICA, and President of Ronalds-Reynolds & Company
Wilfrid L. Charland,	Chairman, Board of Directors, of McKim Advertising Ltd.
John N. Milne,	P. Eng., Chairman, BBM Bureau of Measurement, Director, Canadian Advertising Research Foundation, Vice-President, MacLaren Advertising Company Limited and Personal Member, ICA
Geoffrey W. Smith,	CAAP, Staff member, ICA

INTRODUCTION

1. The Institute of Canadian Advertising was pleased to receive an invitation to appear before the Special Joint Senate-House of Commons Committee on Consumer Credit (Prices) and to deal with the role of advertising in the Canadian economy, the contribution it makes to economic growth and social welfare, its effects on consumer satisfaction and prices, and related matters.

2. We appreciate the degree of concern felt among Canadians when confronted with the problem of rising prices, and realize the importance of this Committee's enquiry into the subject. We and our clients share the concern over the cost-price squeeze, for it affects almost every aspect of doing business. As professional people engaged in the advertising field, we welcome the opportunity to make available to the Committee any information we may have on the economic and social effects of advertising, and to present relevant points of view based upon our experience.

3. May we first describe briefly for the Committee our role in the advertising complex. Our basic function is to plan, create, and place advertising on behalf of our clients, who include business firms of every size, institutions, associations and governments.

4. Although our members work together on certain industry problems, they compete vigorously with each other for business. This competition, plus the growing sophistication of the marketplace, and the increasing costs of doing business, have led, during the post-war years particularly, to an increased emphasis on research, to ensure that advertising expenditures obtain maximum effectiveness. Individually, and through the Institute and other organizations, our members endeavour to improve advertising efficiency through:

(i) Market research, through socio-economic and demographic studies of consumer wants and preferences, so as to define demand for various types of goods and services, both existing and contemplated.

(ii) Media research, which analyzes the comparative effectiveness of various channels of communication with present and potential customers.

(iii) Advertising research, which assesses in terms of readership and other results, the effectiveness of the communication channels selected and the communication techniques employed.

(iv) Conducting intensive extra mural courses in advertising.

(v) Publication of a professional journal, Stimulus.

5. As advertising agencies, we are continuously endeavouring to improve the services we render to our clients and to dollow certain principles of professional and ethical conduct. Appended to this brief are our Standadrs of Practice, Code of Ethics, the Canadian Code of Advertising Standards and an outline of our educational courses.

6. We are presenting to the Special Joint Senate-House of Commons Committee on Consumer Credit (Prices) our views under the following nine headings:

1. Definition of Advertising
2. Role of Advertising
3. Benefits of Advertising
4. Is Advertising Wasteful?
5. Product Differentiation
6. Regulation of Advertising
7. Advertising and Inflation
8. Tax on Advertising
9. Conclusion

7. We felt that in addition to our views your Committee would be interested in an assessment of the role of advertising as seen through the eyes of an independent economist. We have, therefore, asked Professor O. J. Firestone, the Vice-Dean of the Faculty of Social Sciences of the University of Ottawa, to

prepare a professional analysis of "the economic implications of advertising". Professor Firestone is the author of the book "Broadcast Advertising in Canada, Past and Future Growth," recently published, as well as of many other books on economic subjects.

8. We hope that such an independent economic analysis will be of help to the Special Joint Senate-House of Commons Committee on Consumer Credit (Prices) and we are submitting Dr. Firestone's study separately as a public service. It accompanies this brief as an exhibit.

DEFINITION OF ADVERTISING

9. Before presenting our observations on the role of advertising, we would like to define advertising itself.

10. In the present-day era of mass production and mass markets, advertising may be described as the paid use of mass communications. It involves the purchase and use of space or time in the following five classifications of media:

(i) newspapers, including dailies, weeklies, and weekend supplements
(ii) the so-called electronic or broadcast media, including radio and television
(iii) magazines and other periodicals, including business, trade and farm papers, directories, etc.
(iv) outdoor and transit, including bill boards, busboards, etc.
(v) direct mail, which covers advertising sent through the mails

11. Messages in the various media may be run any number of times by any number of people—by public service institutions, by cultural and non-profit organizations and by governments; but in our society by far the greatest use of advertising is by business people to disseminate information about the availability and desirability of goods and services, in order to develop present or future sales.

12. All three elements in the definition are relevant—paid use, mass, and communications. Publicity and public relations may often have the same or similar objectives and use the same media but are not advertising; price-off deals, premiums, and trading stamps are often used by manufacturers to sell goods and services—the two latter are generally handled by several specialized organizations—but they are classed as promotion, not advertising. Similarly, the salesman at the door is not advertising. But all these are alternative ways of attracting attention, and creating consumer acceptance—and, as alternatives, they are competitors for the advertising dollar.

13. We propose in our brief to discuss only our own field of endeavour—advertising itself—the paid use of mass communications.

THE ROLE OF ADVERTISING

> As soon as the division of labour has once established itself in a community, two principles at once begin to be important, of which time is the very essence. These are: "First, that as goods are produced to be exchanged, it is good that they should be exchanged as quickly as possible. "Secondly, that as every producer is mainly occupied in producing what others want, and not what he wants himself, it is desirable that he should always be able to find...others who want what he can produce.
>
> Walter Bagehot, English economist and sociologist, in "Lombard Street" (1873).

14. Advertising is the natural handmaiden of an industrial society. Mass production requires mass markets—and this leads to the use of mass communication techniques.

15. The discovery of tools and the introduction of technology changed the whole nature of society. In North America we do not individually produce our own food, weave our own clothes, build our own homes. We live in a complex age of barter, all of us interchanging our time, energy and talents for money with which we purchase goods and services produced by our fellows. Hence our society has been described as a marketplace, all of us buying and selling to one another.

16. If we are to exchange or "sell" our talents, it is inevitable that we should find ways of drawing attention to them. Consequently, the marketplace may on occasion become somewhat clamorous. But description and display are built-in characteristics of the market; and the role of advertising today can be analyzed objectively only against the background of a marketing society.

17. The role of advertising in our culture has probably been given further impetus because our society, within very broad limits, is both free and competitive. Some critics attack the whole concept of advertising because they are convinced of the merits of regimentation and the fully-planned economy. Should Canadians ever choose to live in such a society, then the importance of advertising might well diminish considerably.

18. The manufacturer—or distributor—will spend money on advertising only when he is convinced that it will be more productive than other methods of building business. Many other factors will also offset sales—factors such as quality, style, price, availability, packaging, company, product and service reputation, the nature of the competition, and the strength of other appeals at the same time for the same dollar.

19. There are also other avenues of communication. The most effective, and the oldest, remains face-to-face conversation. But this is neither easy nor economical with a vast national market, though a few major firms still rely essentially on door-to-door salespeople to move their product. For the average manufacturing firm, however, one survey showed that the cost of a salesman visiting a customer was $33.55 a call—and it often takes several calls to complete the sale. In addition, much of today's selling to the consumer is done through the supermarkets, or other self-service centres where customers make little contact with the sales personnel, and where their product familiarity is primarily based upon previous experience, the recommendations of friends or advertising they have seen before entering the store. Insofar as sales to business are concerned, in a major enterprise many individuals may influence a buying decision—the foreman, the plant supervisor, the controller, the purchasing agent, technicians, and top management. Advertising can be used to reach all echelons efficiently and economically.

20. In Canada, advertising can also contribute in a broader way to our national wellbeing. Over the years, about one-third of our national income dollar has come from trade. Canada is endowed with a vast heritage of natural wealth; due to circumstances of geography and history we are unduly dependent upon one market as a source of sales and investment. We need to broaden our sales base by finding new markets abroad and by cultivating the home market more intensively, and we need to diversify our sources of investment capital.

21. These are natural tasks for advertising. One Ottawa trade official tells of a Canadian manufacturer who spent $100 on his first advertisement in a Nigerian newspaper and received $250,000 worth of new business as a result. Rarely does

the advertising dollar bring such dramatic and rapid return; but the instance, even though not typical, indicates the value of advertising in promoting the sale of Canadian products and services abroad. Countries where such sales are made in time become potential sources of capital, for individuals and companies tend to invest in countries where they already have prior business experience.

22. Obviously, advertising is no cure-all for every sales slump. An excellent advertising campaign may not benefit an unsatisfactory product—indeed, the campaign may hasten the product's demise. This is because the investment in launching a new product is considerable. Months are spent on research, on market and product testing, on drawing up specifications for supplies, equipment and manufacture. To recoup this investment, the manufacturer usually depends not only on sales, but on repeat sales—and that means developing a host of satisfied customers. If the customers find that the product does not live up to their expectations, the strong probability is that they will refuse to buy again, and further, may become a powerful anti-sales force in the market. As a consequence, the product will perhaps soon disappear, and the manufacturer faced with a severe loss. The more people find out quickly that a product is inferior, the more rapidly we would expect sales to suffer. Thus, one effect of good advertising will often be to destroy a bad product.

BENEFITS OF ADVERTISING

23. Advertising intelligently used benefits both buyer and seller. It is generally accepted that the buyer benefits because through advertising he learns of the various products available, is enabled to compare them with his immediate and long-term wants, and also learns about new products. He also benefits through the lower prices often achieved through the economies of mass production which advertising helps make possible.

24. The element of competitive advertising in the marketplace also benefits the buyer, as it provides an incentive to producers to raise quality, lower prices, and innovate with new products or product improvements.

25. For example, a year ago the research officer for the Hydro employees local of the Canadian Union of Public Employees, Mr. Navin Parekh, pointed out that a study showed food prices were lower in Toronto and other metropolitan centres than in smaller towns. Mr. Parekh gave as two of the reasons "highly competitive market because of several larger chain stores" and "better consumer knowledge because of extensive advertising".

26. The seller also benefits because advertising frequently helps stabilize production, may lower production costs through building up increased volume, and can often decrease his sales expense; and, of course, advertising provides him with a ready gateway to the market when he has new products to introduce.

27. Some of these contributions of advertising also benefit the community. In our industrialized and productive economy, the country's economic wellbeing depends to a great extent upon a high degree of employment and a reasonable degree of business prosperity. By helping to uncover new markets and expand existing ones, advertising contributes to both these objectives; for as an element in stimulating sales it helps sellers to provide jobs, pay wages, taxes and dividends, and improve products, plants and equipment.

28. There is one other benefit of advertising of particular significance in our democratic society. A free press is regarded as the bastion of a free society; yet few magazines or newspapers of any stature could survive in our economy

without advertising. The Royal Commission on Publications stated in its Report: "A periodical may have a competent management and editorial distinction; but without advertising income to meet publication costs, such merit will become only a memory." And of course the two other major information media of our day, radio and television, also depend upon advertising revenues for their existence.

29. This is not to say advertisers buy space or time in these media as a public service—though they sometimes donate their messages for that purpose—nor as an act of democratic benevolence. Rather, business utilizes these media because, in reaching vast numbers of people at one time, they represent practical avenues to increased public awareness of a product or service—and this awareness may mean a shortened, economical route to increased sales.

30. When advertising agencies purchase space in a newspaper or a magazine for an advertiser, they are buying reader traffic, an exposure to a certain type of audience which the editor has already attracted to his publication. The advertising is designed to convey appropriate messages about appropriate products, selected on the basis of the nature of the audience the editor provides.

31. The surest way to lose the interest of that audience, and thus undermine the value of the advertiser's investment, would be for the advertisers or the advertising agencies to try to influence the nature of contents, directly or indirectly.

32. The dividing line between editorial authority and integrity and paid advertising content is very clearly defined, and fiercely guarded by the editorial staff; and we respect that distinction, as a matter of principle and as a matter of good business.

IS ADVERTISING WASTEFUL?

33. The question has been raised "Is advertising wasteful?" The answer is "sometimes".

34. There are several reasons why this is so. One is the nature of our economy, structured around the profit-and-loss system, and operating under competitive conditions.

35. In such a climate, management makes constant war on waste, for waste contributes to higher costs. The manufacturer who spends money on advertising when he could choose more productive channels of business development is wasting his resources. In our experience, client management is on guard against waste in advertising just as vigorously and as constantly as it watches for waste in material supplies, in work processes, and waste in time and effort. Wasted dollars, whether they be in advertising or any other part of the productive process, represent a needless cost and indicate management inefficiency; and inefficient companies operate at a severe handicap in a competitive atmosphere.

36. Advertising agencies similarly operate in a competitive climate. If an agency is not conscientious in trying to get maximum value for the client's dollar, it will soon be looking for another client, just as the inefficient client is likely to soon find it necessary to seek a new source of customers.

37. Because of the high investment expense required, manufacturers today spend many months on market research—testing new products, and checking on consumer reaction and preferences before getting ready for national distribution. Ideally, a manufacturer would then develop a product suited in quality, style and price to a certain section of the market, and would spend his advertising dollars describing his product to only those interested and in an immediate position to buy. But how can one pick the precise time when a precise individual

has the time, money, and inclination to make a specific purchase? The cost of isolating such individuals may be totally uneconomic. Mass media in a sense are bound to be wasteful—only a small percentage of the readers of a newspaper will read a particular advertisement—but the expectation is that response from that percentage wlil more than justify the cost, and the cost itself may be far less than other methods of selecting potential customers. Waste in communication is a highly relative term.

38. In addition, there are waste factors within advertising itself. There is poor advertising, just as there is poor design, and obsolete machinery, and outdated work procedures. Later in this brief we will outline some of the steps what percentage will more than justify the cost, and the cost itself may be far waste. But certainly it must be conceded that some advertising is inefficient per se, and we are not here to defend it.

39. In addition to those advertising campaigns which are not soundly conceived, or are misdirected, a campaign may be wasteful because of too much advertising—or because of too little. Theoretically, one should stop advertising at the point at which another dollar invested will not bring in more than a dollar's worth of sales. This exact point is difficult indeed to determine. The effect of advertising is cumulative and most brand advertising is long range; meanwhile, at any point in time the economic outlook may alter, a competitor may introduce a superior product, or a new promotion, or a better advertising campaign, or cut prices, or component products may become unavailable or rise sharply in price—and such factors amy change the whole complexion of the marketplace. No matter how carefully the available relevant data is collected and assessed, the unforeseen and the imponderable can combine to make the sales forecaster look inspired or inept. It is difficult enough to evaluate advertising influence after the campaign is over; but to predict response precisely is at present beyond us. And this is understandable, for we are dealing, not only with the unknown future factors in the market, but with human motivation and response.

40. From the viewpoint of society, this unpredictability probably provides a degree of protection. No doubt each advertising agency, like each political party, would like to develop a formula that would guarantee immediate and everlasting favourable support; but none of us, advertisers or elected representatives, would be happy to see our competitors come up with such an achievement, and there is little doubt that society is all the better because people insist on making their own choices in the marketplace and the political arena.

41. The question of waste in advertising raises another implication which concerns us all, namely "Does advertising increase the cost of goods?"

42. If a business is to operate at a profit, all costs of production, including advertising, must be covered by the selling price. It is the consumer who pays for all wages, fringe benefits, material supplies, plant and equipment, taxes, sales promotion and advertising. But to the buyer these expenses can represent value and investment. And additional expense does not necessarily mean extra cost. Indeed, the contrary is often true. A new and expensive piece of machinery may reduce production costs and result in lower prices; a wage increase or additional fringe benefit, if it results in increased productivity, in reducing costs and making possible lower prices.

43. In our experience advertising, properly used, represents this type of investment. It has been estimated, for example, that a handmade car would sell for some $50,000; a single copy of a book might run to $5,000 or $10,000 depending upon the author, the artwork, the type of paper, binding, etc. But advertising helps to sell thousands of cars and books so that the manufacturers

can apply high-volume, low-cost production techniques; and as the market expands the unit cost frequently drops, permitting lower selling prices.

44. Thus, although the consumer pays for advertising, he may save a good deal of money by doing so. Mass merchandising, mass production, lower unit costs and reduced prices are not unrelated. When electric refrigerators were introduced, for example, advertising contributed to a rapidly-widening market that saw the purchase price per unit drop by one-half within a few years. As the Canadian market for colour television grows, production costs will decline and prices will tend to follow the same downward trend. Of course, improved technology, less expensive sources of supply, improved methods and equipment would all contribute to this result; and, depending upon the product and the industry, they might be much more important factors in this regard than effective advertising.

45. There is another aspect of so-called wastefulness in advertising that is much more difficult to answer because of the subjective issues involved. Some thoughtful observers of our society concede the effectiveness of advertising as a business tool, but are concerned with what they consider to be its undue influence in awakening wants and desires.

46. Certainly the comment is true, that most advertising appeals to human wants, not needs; and sometimes even the wants are latent rather than realized wants. Thomas Edison discovered that at first no one wanted electric lights, and none of us wanted an electric refrigerator or a ball-point pen until they were drawn to our attention.

47. To criticize advertising on this score perhaps is to obscure the real issue. One economist notes:

> Advertising is sometimes criticized on the ground that as part of the capitalistic system of free enterprise it leads consumers to buy the wrong things and spend too much for them, whereas consumers would be better off if they bought different things and spent their money in different ways. When this criticism implies, as it often does, that someone in authority might better decide what things should be bought and how consumers should spend their incomes, then the essential clash is between the rival ideologies of individualism and authoritarianisms; and the basic argument is not really about advertising at all.[1]

48. It may be that in our abundant society foolish choices will often be made, and that the consumer will frequently disturb the moralist. But the choices are made freely, by the same people to whom we entrust our choice of government.

49. Two months ago, the Consumers Association of Canada made up two shopping lists for a family of four, based upon purchases in a store here in the Capital. The purchases were comparable from a nutritional point of view, and yet one lot totalled $34.87, the other $18.62.

50. While this was a valuable lesson in budgeting, it probably comes as no surprise to a housewife to learn she can buy high-priced and low-priced items. The real significance of the experiment, perhaps, was that the two shopping lists were made up in the same store. The various types of goods were all openly displayed, all inviting selection. The difference in selection is thus a matter of consumer's choice, in which a number of factors might play a role—personal or family taste preferences, previous buying experience, the desire for variety, or the appeal of convenience factors, such as speed and ease of preparation. The function of advertising is to present the consumer with the array of possible

[1]Neil H. Borden, M.B.A. of Harvard University, in "The Economic Effects of Advertising".

choices—and experience indicates that advertising often enables the housewife to make up her shopping list before she even goes to the store—whether she is shopping to save pennies, to splurge for some special occasion, or to find packages that will add to her available leisure time.

51. Admittedly, many of the product differentiation factors that appeal to the consumer are personal and subjective—but that does not imply that they are not sound reasons for buying, unless we are prepared to take the position that enjoyment, per se, is illogical and perhaps even reprehensible. And if the process of choice involves a degree of higher cost, that may be a small price to pay for a free economy.

52. It may well be that much of our modern concern over advertising arises because advertising at work is part of the productive forces; but when at work it also becomes a mirror, reflecting the age in which we live.

PRODUCT DIFFERENTIATION

53. Product differentiation refers to the modern marketing principle of creating more opportunities for consumer choice by providing a range of competing products. The businessman aims to increase his company sales in this way. At the same time he increases competition for the consumer dollar. This competition in turn provides the consumer with numerous advantages, namely:

(a) Greater variety of choice more likely to meet the specific preferences and needs of the consumer;

(b) Greater availability of products to meet consumer needs in terms of time and outlets;

(c) Improvements in product quality;

(d) Better services including warrantees and guarantees;

(e) Broader range of prices;

(f) Tendency to lower prices, or to restrain undue price rises.

54. Product differentiation takes many forms. One of the more significant is the distinction between brand name products and private brand products. Brand name products are produced and sold by manufacturers under an exclusive label. Private brand products, also known as "house" or "stencil" brands, are promoted and sold by retailers under their own brand names and trade marks, and distribution is confined to outlets they control. The retailer may have his own production facilities for his private brand product, or he may use a contract supplier who may also be a manufacturer of a national brand in the same category.

55. Consumer studies may indicate to the manufacturer that opportunities exist for an additional product on the market. Such products may be either modified items or the same products in a different form (different sizes, quantities, styles, colour, etc.). The consumer benefits because these products then become available, sometimes through different distribution outlets, in greater variety and in more convenient locations.

56. Advertising is one of the means used to encourage the acceptance of brand name products by consumers. Much of this advertising is based on market and advertising studies conducted by manufacturers and advertising agencies.

57. Consumer acceptance, in the final analysis, determines the number and variety of products in any particular category offered for sale as well as the rate of attrition of such products. Advertising assists by informing the consumer where he can buy what he wants, when he wants to. No amount of advertising

will over the long term persuade the consumer to keep on buying products which do not satisfy him. And from the manufacturer's point of view, success is predicated on "repeat" sales.

58. Much product differentiation serves a constructive purpose by leading to product innovations and improvements. At any given point in time, some product differentiation may be only nominal. But over the longer term the cumulative effect of such distinctions may lead to significant improvements in quality of product and its value and satisfaction to the consumer. Further, the trend of innovation spurs on businessmen to continuously strive for product improvement and production economies through research and development.

59. Nominal product differentiation, some suggest may involve social "waste". The alternative, however, would be to reduce product differentiation by artificial means which in the end may involve greater social costs than the system presently in operation in Canada. The alleged "waste" indeed may be regarded as part of the catalytic stimulant to economic growth in a largely private enterprise-oriented market-type economy like Canada's.

60. The case for product differentiation in Canada has been made in these terms:

> Canada is a wealthy country and incomes of consumers are rising. Consumers want a greater variety of goods and services to choose from. Who should say whether six varieties or twelve varieties of a particular product in the interest of conserving resources, such as was practised during World War II?
>
> Should the decision be made by a Government Department of Consumer Affairs, or perhaps the Department of Industry, telling business firms what to do and how many varieties of each product they may be permitted to produce? This would be tantamount to controlling production and distribution of such products, and it would significantly slow down new product and improved product development in the future.
>
> Should a decision be made by industry agreeing among themselves? Such arrangements cannot help but be suspected of possible collusion and the latter is unlikely to serve the best national interest.
>
> Or should the decision be left to the market-place, permitting the forces of competition to have their full play? For, if there is a point when product differentiation goes too far, then businessmen will soon find out that this effort does not pay. The result will be that producers will concentrate more on the brands that consumers prefer, and the rest of the brands will wither away. And businessmen, if they do not want to lose money over the long run, will sooner or late discard the production of such items."[1]

61. If we accept this reasoning, then relying on the market as a final arbiter of product differentiation is more likely to bring the consumer and our society as a whole greater benefits than changing the existing system so that either government or industry make the final decision.

62. Advertising involves a cost which is borne in the first instance by the business firm. If advertising assists in developing a large market, this may bring lower production costs as the result of economies achieved and be passed on to the consumer in the form of lower prices. If advertising costs are not offset by production economies, they will be reflected in the final price of the product. But such higher-priced product will be bought by consumers over the longer term

[1]See Firestone Report, Pages 65-66

only if the consumer judges such higher prices to be justified in terms of value received. These value judgments may involve better quality, greater convenience and satisfaction, improved packaging, saving of time, energy, etc. The consumer retains his freedom of choice: he may buy the older products which may be lower priced; or he may decide there is an advantage in buying the higher-priced newer or modified products. Product differentiation thus provides the consumer with multiple choices in different price ranges, adjusted to his pocketbook and his preferences.

63. When the market for brand name products reaches a certain size, new suppliers will often try to enter the market. These are the product imitators who offer their products at lower prices than those charged for brand name products. Product imitators usually spend little money on product development and on advertising. Nonetheless, advertising makes it possible for the product imitator to offer his lower-priced product because the product initiator has helped create the market of which the product imitator now wants a share. Thus, advertising helps both the product initiator and the product imitator even though the latter may not pay for it at all or only to a minor extent.

64. From a social point of view the product imitator may be performing certain useful functions and this has been explained in a study as follows:

(a) By keeping his selling and marketing costs low and by offering consumers the option of low prices, he serves to help hold down competition in advertising and other non-price forms. In short, he serves to help bring low costs and low prices in established industries.

(b) By offering lower priced products, the product imitator extends the range of potential customers.

(c) By successfully appealing to consumers, the product imitator provides increased competition to the product originator, spurring on the latter to further innovations."[1]

REGULATION OF ADVERTISING

65. Certain types of advertising, before they appear, are subject to certain regulations enacted to protect the public interest. Chief of these are those embodied in The Food and Drugs Act and Regulations; the restrictions that apply to liquor advertising; certain stipulations affecting publications that are printed abroad but directed to the Canadian market; and the regulations of the Board of Broadcast Governors on the amount of commercial content relative to program time, as well as the control exercised by the CBC over the content of commercials.

66. Over the past fifty years advertisers and advertising agencies have combined their efforts in order to make the whole advertising complex more business-like and professional. The Association of Canadian Advertisers was one of the founders of the Better Business Bureau; and in the early 1900's advertisers and the agencies incorporated the Audit Bureau of Circulation to provide audited figures on print media. Up till that time, publishers, when asked for validation of circulation figures, looked on this as an "unwarranted invasion of private business information".

67. Today agencies and advertisers still support the Audit Bureau of Circulations, which through an affiliate organization is now studying additional areas of audit service.

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[1]See Firestone Report, Page 75

68. In 1942 advertisers and agencies sponsored, with the Canadian Association of Broadcasters, the Bureau of Broadcast Measurement, an independent, non-profit research organization now known as the BBM Bureau of Measurement, to develop and refine methods for measuring broadcast audiences.

69. In 1949 advertisers and agencies jointly sponsored the Canadian Advertising Research Foundation, which will analyse and evaluate any proposed research project related to advertising and marketing.

70. All three organizations, in effect, were created to provide an objective climate for various types of advertising, audience and market research.

71. Members of the Institute and their clients have undertaken a variety of studies to assess audience and readership comprehension and reaction, with a view to increasing advertising effectiveness.

72. Advertising agencies, advertisers and all major media also subscribe to the Canadian Code of Advertising Standards, designed to insure that advertising is prepared in such a way as to respect the tastes and interests of the public at large. A copy of the Code is appended to this brief, as is the Code of Ethics of the Institute of Canadian Advertising.

73. It should be pointed out that media, too, regulate in the public interest. One of the country's largest dailies, as a matter of principle, carries no liquor advertising; certain other publications eschew both liquor and tobacco advertising. Want-ads, especially on the larger dailies, are carefully scrutinized to guard against fraudulent messages; and proposed advertising messages which appear to violate the Canadian Code of Advertising Standards have been rejected by various media. These rejections rarely involve the national advertiser, who sets a high value on his own good name and the reputation of his products. The files of the Better Business Bureau confirm that corrective action in nearly every case has to be taken only against the so-called "fringe" and "fly-by-night" operator.

74. Advertising, indeed, has no choice but to hold itself accountable, for of necessity it operates in full public view. What the advertiser states appears on the record, usually before thousands of witnesses; and the messages themselves may be used as evidence should claims of fraud or malicious damage arise.

75. In this era of rapid change our Institute takes for granted the concept of endless education. The Institute of Canadian Advertising has established a four-year course in advertising, as well as courses in media planning, seminars and workshops on the use of colour on television and in newspapers, on marketing strategy, budget analysis and preparation, etc. We work with organizations such as Advertising and Sales Clubs, the American Marketing Association and universities in the planning and conduct of educational courses, both drawing on their resources and contributing to them.

76. Nonetheless, we are frequently dismayed by how much there is still to learn. Communication, in our experience, is not a simple business.

77. Perhaps it never is. The files of every marriage counsellor are jammed with instances of individuals who live in intimate association but who cannot speak to each other with persuasion nor listen with comprehension. Words and sights and sounds reach us through a complex filter of emotional conditioning. Our religious, political and moral convictions, childhood experiences, personal fears, hopes and ambitions sometimes screen out messages, sometimes distort them and sometimes magnify them. To transfer an idea, unchanged, from one mind to another is almost impossible—and to hope that the recipient will act just in accordance with our wishes perhaps calls for more faith than wisdom. But we accept the challenge to communicate effectively as a business responsibility and we keep trying to reduce the areas of the unknown and to expand the degree of predictability.

ADVERTISING AND INFLATION

78. Inflation may be of two kinds. One type is demand-pull inflation. This is a situation where the aggregate demand for goods and services exceeds the aggregate supply of goods and services available (after allowing for net imports of goods and services). Or to use a popular phrase: 'Too many dollars are chasing too few goods'. The other type is cost-push inflation. In this case prices may increase as a result of production costs rising more rapidly than productivity, whether such increases in production costs are the result of higher wages, higher profits or higher interest rates, or a combination of all three. As business firms pass on these higher costs to consumers, higher prices ensue. The point has been made that advertising contributes to increasing the aggregate demand of goods and services. In a period of demand-pull type of inflation, the effect of advertising has been compared with 'throwing gasoline on a fire that is already burning briskly'. In a period of inflation of the demand-pull variety, the basic cause for rising prices is the excess of aggregate demand for goods and services over the supply of such goods and services."[1]

79. A specific question that has been raised regarding advertising is: Does advertising contribute to demand-pull type inflation? Advertising does contribute directly to the demand for goods and services through employing people engaged in providing advertising services. However, this direct contribution in terms of the total economy is quite small, involving less than one per cent of Canada's labour force. The main contribution of advertising consists in communicating information about the availability and advantages of goods and services to consumers so as to encourage them to buy. Some critics of advertising claim that, by attempting to persuade people to consume, advertising contributes to inflation.

80. If demand-pull type of inflation is the problem, then any proposed solution should be directed at correcting the cause, and not at minimizing the symptom. It is not advertising but a higher level of income that spurs the demand for goods and services and makes it possible for consumers to buy more. Regardless of the quality and amount of advertising, if consumers do not earn higher incomes, they could not spend more money on consumer goods and services. The economic study accompanying this document as an exhibit deals with the question: Does advertising contribute directly to raising income? We quote the answer: [1]

> The answer is: No.
>
> But this "no" must be qualified. For though the advertising process does not directly affect income, it facilitates the working of the economic system as it is now in operation in Canada and thus it makes an indirect contribution to raising income levels in the country, just as most other activities do that affect the economic life of the nation, from education to health, from government policy to business leadership, from export trade to domestic investment.
>
> To trace some of the indirect contributions which advertising makes to raising income levels:
>
> Advertising will inform consumers not only of the types of traditional goods and services available for sale, their quality, price, etc., but it will also bring to the attention of consumers new types or improved types of goods and services coming on the market.
>
> By encouraging consumers to purchase such goods and services, advertising helps businessmen to determine the desirability of proceeding

[1] See Firestone Report, Pages 106 and 110.

with the expansion of plant capacity, the purchase of new machinery and equipment, or the diversification and reorientation of their operations. Based on the favourable assessment of market prospects, businessmen may then proceed to spend additional sums on expanded or improved, or entirely new capital facilities.

Higher investment in turn is one of the most dynamic factors contributing to continuing economic growth, a rise in real Gross National Product, expanded levels of employment, improved earnings, higher standards of living and greater social welfare.

Higher levels of real income make it possible for income earners to spend more on consumer goods and services. Thus advertising, through encouraging businessmen to spend more on investment, is a factor that may contribute at times significantly to higher earnings in the country. Hence, higher earnings make it possible for income earners to spend more money on goods and services in the first instance than they would be able to spend in the absence of increases in earnings, and not increases in advertising. [1]

81. During the period 1961 to 1966 advertising expenditures in Canada have risen more slowly than incomes, consumer spending or personal savings as indicated in the following figures:

Personal Disposable Income	47%
Consumer Expenditures	43%
Personal Savings	123%
Advertising Expenditures	34%

Thus, the facts do not appear to support the claim that rising advertising expenditures have contributed significantly to a demand-pull type of inflation. Advertising expenditures indeed lagged noticeably behind the rapidly rising incomes that led to increased consumer spending.

82. If higher income, and not higher advertising expenditures, initially creates consumer demand pressures—a point of view our Institute supports—then we suggest the way to deal with problems of a demand-pull type of inflation is through appropriate fiscal and monetary measures. We quote again from the economic study accompanying this document which states such measures should:

> aim at keeping disposable personal income in an approximate relationship with the expanding capacity of the country to produce goods and services, taking into account the increases in the balance of payments deficit that the economy is able to take into its stride.

The study concludes:

> Presumably, the most effective way of bringing down prices would be through measures designed to increase national productivity and to increase competition. To the extent that advertising contributes to increasing competition, it represents an important safeguard against prices rising as much as they would if competition were lessened.[2]

TAX ON ADVERTISING

83. In the paragraphs that follow we examine the suggestion that a tax be imposed on advertising as a means of fighting inflation of the demand-pull variety. As the Committee is aware, considerable economic doubt currently

[1] See Firestone Report, Pages 110 and 111.

[2] See Firestone Report, Page 112.

exists as to whether or not inflation at the moment is as serious a threat as deflation. This diversity of opinion exposes one of the many risks in the proposal. By the time the suggestion could be effectively implemented—considering long-term contracts, the long-range intent of most brand advertising, and the carry-over effect of previous advertising—the economic situation itself might well have moved into a new phase. Unfortunately, it would not then be possible to utilize advertising to support a rapid turn-around in sales, because national advertising does not work that quickly.

84. Just what would be the effect of such a tax in our type of economy? The hope has been voiced that it would "cut down the volume of advertising and in this way reduce consumer spending"—and thus serve as an anti-inflation weapon. In fact, this kind of tax might add to the cost of goods and services without adding value—and thus could aggravate the very evil it was supposed to cure. This result might follow regardless of whether or not the proposal actually resulted in reduced advertising.

85. Supposing, for example, that the tax did not cause an appreciable decrease in national advertising. This is quite probable, since many major companies would be very reluctant to lose sales to a competitor. Rather than run the risk of forfeiting a share of the market, in all likelihood they would consider the tax just one more added cost of doing business. Who would pay this additional cost? The consumer, who would end up paying more but receiving no more in value—which is one form of inflation.

86. Supposing, though, the tax did cause a reduction in advertising. Its effects on the consumer would still have certain inflationary aspects, as well as other major disadvantages. Any significant cut-back in advertising would restrict the competitive forces in the marketplace that in our economic system bring the consumer a wide range of benefits. The consequences to Canadians have been described in the economic study accompanying this document in these terms:[1]

> Without competition, prices of goods and services sold would be higher, a fact that has been amply demonstrated in Canadian economic experience. Thus the maintenance of competition has become one of the basic objectives of government economic policy and various means have been, and continue to be, employed to achieve this objective including combines legislation, tariff policy, fiscal and credit measures, etc.
>
> The point has been made previously, but it bears repeating, that advertising is a means through which business firms inform the potential purchaser of the quality, serviceability and price of the product they offer for sale. Thus advertising becomes one of the most direct ways of one firm competing with another firm for a share of the consumer dollar.
>
> Now, if a tax were imposed, designed to reduce advertising which serves to inform the consumer about the choices he has in buying goods and services, one of the important means of making competition more effective in a largely free enterprise and market—oriented economy would be interfered with.
>
> Business firms would find that in a less competitive situation they could pass on cost increases to consumers in the form of higher prices. The consumer, being less adequately informed of the choices he may have in buying in the cheapest market, would have to pay these higher prices if he wanted to purchase such goods.

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[1] See Firestone Report, Page 128.

> Business firms, knowing that they could pass on higher prices to the consumer because of lessened competition would be less prone to continue to search for economies and push hard for productivity increases. Thus basic production costs would rise. The ultimate price paid by the consumer would be considerably higher because of the snow-ball effect of the price-setting system which provides for mark-up upon mark-up, as a commodity moves from the manufacturer to the wholesaler, then to the retailer, and finally to the consumer." [1]

87. The more effective such a tax might be in reducing advertising, the less effect it might have on improving price-value relationships. Since most advertising depends upon a degree of repetition for effectiveness, any sizable reduction might nullify the total impact. A parachute that gets one only half-way to earth has not much practical value. Half an advertising campaign sometimes falls into the same category. Again the consequence would be a little less expense, but much less value.

88. Another type of unfortunate effect might be to give a significant competitive advantage in the Canadian market to foreign-owned companies whose advertising would continue to reach Canadian consumers through U.S. publications, many of which have considerable circulation in Canada, and from U.S. broadcasting stations adjacent to the Canadian border. Such stations cover the richest and most densely populated markets of Canada. Consequently, Canadian employment could suffer without commensurate gains in decreased demand.

89. Oddly enough, it was proposed to exempt retail advertising, which is direct and hard sell, and is expected to create immediate impact; but brand advertising, which is generally long range in its influence, was not proposed for exemption. We find it a little difficult to follow the point of view being presented in this regard. It was also suggested that "want ads" be exempted on the basis they are "informative"—though an analysis of two recent dailies showed that 2,091 out of 4,157 classified advertisements contained "selling" phrases—a fact we do not, of course, consider reprehensible.

90. Enforcement of this tax would present enormous administrative problems. For example, the original suggestion was to tax public relations activities as well as advertising. Would a company putting out a news story on fire prevention, or announcing a scholarship plan be taxed? Would banks, trust companies and the government be taxed for running Canada Savings Bond campaigns or other savings campaigns that are basically anti-inflationary? Would a discount store be taxed for announcing lower prices on special occasions—or a car company for running a safe driving campaign—or the insurance companies for promoting life insurance? And what about all the advertising paid for by companies as a donation toward a host of good causes ranging from charity to culture?

91. It would appear that to ensure equitable enforcement would require the establishment of committee all across the country to read every proposed advertisement and news release and to decide whether or not each one was anti-inflationary in content and therefore tax exempt. Would the whole process not invite grave abuse? And if advertising is to be taxed because it is a sales tool, should not merchandising alternatives, such as salesmen's salaries, be subjected to an extra levy? What about an improved design that sells more goods? Would that be taxable? Should the money spent in research and development that so often leads to better products and a broader sales market also be taxable? Is there not a strong possibility that all these taxes would tend to force up the price of goods without increasing value?

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[1] See Firestone Report, Pages 128-129.

92. Any economic burden introduced as an answer to a national problem should, as far as possible, be distributed fairly through all sectors of the economy. But this tax would hit hardest at three important groups—small business, news and advertising media, and product innovators. Let us consider the effects on each one. The small and medium sized businessman would suffer far more—and far sooner—than the large corporation. It is obviously far easier to cut from a large budget than a small one. Similarly, a drop in production would force many more small businesses to fail than large ones.

93. The proposed tax, if it resulted in a significant reduction in advertising, would also rapidly deprive newspapers, radio, magazines, television, outdoor advertisers, direct mail producers, etc., of considerable revenue. As was pointed out in the section on Benefits of Advertising, this drop in income could mean business failure for many. To offset the loss in revenue from advertising, certain newspapers and magazines might be able to raise their selling price by four or five times—but whether this price spiral would benefit or be welcomed by the consumer is debatable.

94. In a free and competitive economy, individuals and companies are always looking for better ways to make better products. But to introduce these at reasonable cost, volume production is necessary. The proposed tax would set up one more obstacle for anyone trying to market a new or improved product. Yet these are frequently the very people who, by attempting to give more value per dollar, are an anti-inflationary force.

95. In conclusion, in the opinion of our Institute, a tax on advertising would not serve the best interests of the consumer. There is a distinct possibility that a tax on advertising would be passed on to the consumer in the form of higher prices whether or not advertising was reduced Quite apart from the disruptive effects this may have on business generally in Canada, it would reduce competition. Lessened competition in turn would drive up prices. Canadians have found that they have been able to make tremendous economic progress and obtain the second highest standard of living in the world because of increased competition. Why curb progress?

CONCLUSIONS

96. 1. Advertising is a communications process, that is a built-in factor in a competitive, free and industrialized economy.

97. 2. Properly used, advertising can benefit buyer, seller and the community; but it does not always work perfectly, partly because it deals with the transmission of ideas and information, and these are received through a multiplicity of subjective filters.

98. 3. In many cases advertising, by contributing to the expansion of existing markets or the development of new ones, also contributes to lower prices and in such instances is anti-inflationary.

99. 4. Advertising also frequently lowers selling costs and in this regard also has an anti-inflationary influence.

100. 5. The consistent effort to make advertising dollars more effective is itself anti-inflationary.

101. 6. The evidence is as yet inconclusive that advertising is a significant inflationary force.

102. 7. There are grave doubts as to whether a tax on advertising would actually be anti-inflationary. It might well have just the opposite effect.

103. 8. In any event, such a tax might create many more evils than the one it is supposed to ameliorate; for it will impose particular burdens upon small businesses, militate against the introduction of new products, and would impose such a financial handicap upon our communications media that many of them would collapse.

104. 9. Because much advertising, particularly brand advertising, is long-range, such a tax might begin to exert its real influence just at the time when contrary measures were called for; but advertising itself could not revive demand readily.

105. 10. Before assumptions are made about the possible anti-inflationary or inflationary aspects of advertising on the overall economy, a good deal more research is required into the effective impact of advertising on prices and relative values, and into the cause-and-effect relationships between advertising and the many other forces at work in the marketplace.

106. 11. To conclude our presentation, we respectfully submit for consideration three suggestions. They concern:

> Research dealing with the economic implications of advertising; Consumer education; and the possible establishment of a Council of Consumer Affairs.

(a) Research:

107. In our introduction we outlined three types of research that are a present part of the advertising process in Canada, and that are undertaken either on a company or an industry basis. There are other types of research in the advertising field which are of broad interest to all groups directly involved in advertising, and that are furthermore of interest to government and to society as a whole. We refer to research relating to the economic significance of advertising, its impact on the economic growth of the country, the welfare of our society, operations of business, the standard of living of the consumer, the effect on prices, costs and profits, etc.

108. Such research, because of its broad nature, is a responsibility of all those directly involved in the advertising business, including:

(i) Advertisers—both national and local, involving products and services, and including both large and small companies.

(ii) Advertising media—comprised largely of printed publications and broadcasting stations.

(iii) Advertising agencies which we represent today.

109. Speaking for advertising agencies in Canada, our Institute considers research into the impact of advertising on our society as essential. Similar explorations are underway in the United Kingdom, the United States and possibly elswhere. Usually university-directed and conducted, such research receives th whole-hearted support of the advertising industry.

110. As evidence of our recognition of the need to refine existing information on advertising's contributions to economic progress and social well-being in Canada, and in order to learn how to increase those contributions, ICA has a special committee charged with:

(i) establishing precise objectives for such research.

(ii) finding valid approaches to the development of useful and reliable information.

(iii) estimating research costs and recommending ways and means to raise the necessary funds, which will be considerable.

111. Since 1949 there has been in existence in this country the Canadian Advertising Research Foundation which is the joint research organization for our industry. It was founded jointly by the agency and the advertiser associations "to promote greater effectiveness in advertising and marketing through completely impartial and objective research," and has gained a fair measure of respect for its work. It has been, and will continue to be, consulted as our program develops, as will any other research group, public or private, that might make a contribution, thus assuring that our research will be objective and unbiased.

112. The Institute also plans to give immediate consideration to any areas of possible research that may arise out of your questions today or out of your final report when it is prepared.

113. The results will be published so that all members of Parliament, Government, Industry and the General Public may be provided with facts from which to make their own judgments with respect to the merits, or demerits of advertising.

114. The Institute will welcome from your Committee, or from any member thereof, suggestions as to the kinds of questions and subjects that might be usefully investigated, so that whatever is uncovered will be of maximum benefit to all Canadians.

(b) Consumer Education:

115. Our Institute believes that consumer education can enhance materially the welfare of the people of this country. Consumer education will help homemakers formulate their buying decisions. This in turn would help the business community since a well-informed buying public immeasurably assists communications and marketing.

116. Our Institute believes further that the time has come when Canadians should not only support the principle of consumer education, but also take practical action. Many voluntary groups are already active in this field. What is lacking is a mechanism to provide objective consumer information to these voluntary organizations on a continuing basis so that these organizations can pass the information on to all interested citizens.

117. In our view, consumer education is such a vital matter that it deserves encouragement from all sectors of the community, including business, labour, the professions and governments. Our own Institute, if it were asked, would be prepared to participate actively and provide whatever assistance it can to support such a movement. It would be our hope that other groups in the country would take a similar positive approach in providing encouragement to what appears to be a very worthwhile cause in furthering the interest of consumers in Canada.

118. We further believe that governments have a responsibility in this matter and that encouragement and assistance may come also from both Federal and Provincial governments.

(c) Council of Consumer Affairs:

119. Consumer education would deal with the process of communicating information on family and personal budgeting, household economics, and general product information. This effort should be supplemented by continuing policy consideration of problems affecting the welfare of the consumer. This kind of consideration could be entrusted to an Advisory Council on Consumer Affairs which, on the basis of studies and the general knowledge of the problems

involved, could advise government, the legislature and the public on the nature of these issues and the policy solutions that might be considered.

120. Such an Advisory Council on Consumer Affairs could be a newly-established body. Or, its functions could be performed by the Economic Council of Canada, as presently constituted, but with its terms of reference expanded to cover consumer affairs.

121. Your committee, however, is far better qualified than we are to suggest the most practical form of such an organization.

122. We leave these suggestions with you and express our appreciation for the privilege of appearing before you.

We will try our very best to answer any questions that I know each one of you must have in mind.

Co-Chairman Senator CROLL: I have a pretty good list of members who wish to ask questions, if you are interested. They are, Mr. O'Keefe, Mr. Whelan, Senator Carter, Mr. Allmand, Mr. Lefebvre and Mrs. MacInnis. We will start with Mr. O'Keefe.

Mr. O'KEEFE: I will be brief with my list of questions, Mr. Chairman. On page 29, at paragraph 105 (10), you say in part:

> ...a good deal more research is required into the effective impact of advertising on prices and relative values,...

From the research already done, sir, can you tell me just what that impact is on just one item? What is the impact of advertising on any item, or how much does the advertising add or, as you suggest, take from the cost of that item?

Mr. VAUGHAN: Mr. O'Keefe, I think you have a very good question there, and I think the problem that you have in your mind is the very thing that is bothering us. We really haven't got the answers to these things, and this is why we are suggesting that we do need research. The advertising business, as a business, is a comparatively young business, it is less than 50 years old really in Canada, and we haven't got all the answers.

Mr. O'KEEFE: Do you agree at least that the consumer pays for the cost of advertising?

Mr. VAUGHAN: Yes, in part he does, and we have referred to it in various parts of our brief and tried to give you the kind of information we thought might illustrate just to what extent the consumer does have to pay for advertising. Certainly the consumer pays, yes.

Mr. JOYAL: The consumer only pays if he buys the product. This is the argument you raised.

Mr. VAUGHAN: Yes, it is an ingredient cost.

Mr. O'KEEFE: So the consumer does not get it free?

Mr. VAUGHAN: May I say something, sir?

Mr. O'KEEFE: Certainly.

Mr. VAUGHAN: In the Firestone Report which, as Mr. Whelan has said, we consider to be a very valuable document, to our knowledge it is the first time anywhere in the world such information has been assembled, and it is entirely objective, and so on. But one of the significant figures it brings out in this report is that all advertising of all types in Canada costs Canadians only about $40 a year, or 11 cents a day, for all types, whether national, retail, or whatever type it may be. So the cost of advertising to Canadians is less than 11 cents a day each, and this is the figure that Dr. Firestone developed.

Mr. O'KEEFE: It is obvious that we get a lot of advertising that is supposed to be free on television programs, for instance, whereas in fact we are paying often for time and annoyance. Do you try to decide just what the consumer is to eat, to wear, to use—as an organization?

Mr. VAUGHAN: Well, Mr. O'Keefe, no, we do not, and I think that is well illustrated by a look around the room here at all these well-dressed people. Not one of them, that I can see, among the men has really the same tie or the same kind of suit. We do not have this influence at all. Naturally, we have tried to promote particular products of our clients, but we certainly have no desire to get everybody thinking the same. Mr. Reynolds' organization is in competition with ours and ours is in competition with Mr. Sinclair's and we are all trying to get each segment of the public to accept the particular products of our client.

Mr. O'KEEFE: So you do not try to manipulate people as such?

Mr. C. Warren Reynolds, Director, Institute of Canadian Advertising: Manipulation, Mr. O'Keefe, is a word that has various connotations. In the lifetime of some of us, the fiction writers have made a great to-do about manipulation, and Capitol Hill was the prime example of manipulation for selfish and iniquitous action. It went through a period for a cycle and then disappeared; and in its place came Wall Street or Bay Street. The suggestion was that because business was big it was automatically bad, and this was another convenient vehicle for the fiction writer to state it manipulated people and manipulated them for selfish gain.

Currently, it is fashionable, and a great many royalties have been made in writing books about Madison Avenue because advertising is held to manipulate people for selfish gain—

Mr. O'KEEFE: Don't you in effect manipulate people through their anxieties, through their concept of "keeping up with the Joneses," to exploit the conformity instinct, through a whole variety of avenues? Do you not in effect seek and in fact manipulate people—women's fashions for example?

Senator THORVALDSON: Mr. O'Keefe broke in on the gentleman's answer in which I was most interested. I would like to hear it, without his being interfered with.

Co-Chairman Senator CROLL: He will get his answer across. Let us have a bit of give and take here.

Senator THORVALDSON: This is a matter of principle in the committee, and it would be much more valuable for the record if the gentlemen were allowed to give their answers.

Mr. O'KEEFE: I am sorry—

Co-Chairman Senator CROLL: This crossfire goes on in the House of Commons and they cannot drop it once they come in here. Any time you feel you have not answered a question fully, answer it fully at the end. Go ahead.

Mr. REYNOLDS: On manipulation—I cannot pass this opportunity, Mr. Chairman, with all due respect, to tell you a little story about a time when a senator had been working here very hard all week and went home and was dead tired and fell into bed and was sound asleep beside his wife; she heard a noise downstairs and she shook her husband and said: "There is a thief in the house". He said: "Yes, there is, and there are a couple in the Senate, too."

This has a direct connection with your question with regard to manipulation, because manipulation is a word that has various connotations. You said to me: "Don't you, in the advertising business, manipulate people?" What might be manipulation to me, might be to the reader of an advertisement emancipation. The two are quite different things.

We have a standard of living that we cherish. This standard of living has brought about convenience and comfort and these things are not simple in themselves. But if they educate people to an improvement in the enhancement of their way of living, that to me might be beneficial as a practitioner of advertising. It might be beneficial not only to my friend who is selling the product or services but to the buyer of that product or services. But to my client's competitors it might be that we "manipulate" one of his former customers.

Mr. O'KEEFE: May I ask another question, also for information. I do not like this word "manipulation" but it is the only word I can think of. Don't you think it is manipulating people when you are appealing to the children of the family in connection with breakfast food?

Mr. George G. Sinclair, 2nd Vice-President, Institute of Canadian Advertising: There are many ways in which a parent can do a bad job, and most of them have nothing to do with advertising.

If in fact a parent chooses to have authority over his child and brings his child up well, he has had an opportunity to do so in this world. I admire parents who do discipline their children, who direct their children, who manage their children. We live in an age which is preoccupied with youth. It is a fact of western society that we seem to be abandoning authority over youth and have become so preoccupied with youth that the elders are in fact taking their lead from young people—and fashions are being formed by the young. It is a phenomenon of our society.

In so far as the selection of a breakfast cereal is concerned, if a mother is seriously concerned about the choice of a breakfast cereal, and believes that one cereal is considerably better than another, surely there is no way under the sun that her four-year old can force her to buy the other; to buy the cereal with the toy in the box. The fact is that the housewife or mother, when the choice is a matter of indifference, that if the child wants to eat this—and getting kids to eat is often a problem—then why shouldn't the mother buy it for him? The problem is certainly not one of manipulation, the mother is quite indifferent as to whether the child can have the product it wants or the product the mother wants to feed it.

Mr. O'KEEFE: That is not the answer to my question. My question was, don't you seek to manipulate the family, the mother, by advertising breakfast foods with the emphasis on the child?

Mr. SINCLAIR: No, sir. The answer is quite simple: it is a phenomenon of our society that parents are leaving decisions to their young more and more—moral decisions, even—and in terms of feeding, parents are leaving decisions on what they will eat, to quite young children. Now, then, if children are decision makers on what they will eat, then we will address advertising to the children and say it is pleasant to eat this particular product.

Mr. O'KEEFE: Surely you are insulting the mother by saying that she does this, by saying that the parents will leave the decision to five-year old children?

Mr. SINCLAIR: Then, if that is not so, surely there is no point to your question.

Mr. VAUGHAN: I would say that, in regard to any advertising in connection with children, the purpose of it is to try to inform them, just as the Government of Canada does in regard to food rules, which are taught in all the schools. This is a very valuable service and one that we heartily endorse. Mr. Reynolds has a comment he would like to make that might be of interest.

Mr. REYNOLDS: In conversation with Mr. Vaughan yesterday, we were discussing this and a great deal of emphasis was given to what you refer to, Mr.

O'Keefe, the effect of the gimmick application to breakfast cereal, where the child is persuaded and influences the parent.

If you make a thorough study across the broad range of ready-to-eat cereals, you will be surprised at the amount of it that is purely informative.

In fact, I know from personal experience with certain ready-to-eat breakfast cereals, that the incidence of increased volume of sale and increased share of the market was directly related to informative advertising, with the child involved.

Mr. O'KEEFE: Surely it should be directed to the mother?

Mr. REYNOLDS: For example if you take the case of a hockey training this is not done as a public service, this is done in a commercial interest of that particular breakfast cereal. But it is beneficial in two ways and the value of the information that is given to the aspiring hockey player, and the fact of the nutritional value of that breakfast cereal, eaten by the child, is undoubtedly good for the child and will mean no loss to the parents.

Senator THORVALDSON: My question relates to the word "manipulation".

Co-Chairman Senator CROLL: Do you mind just taking your turn, Senator Thorvaldson? Mr. O'Keefe wants to finish up.

Mr. O'KEEFE: I have just one more question. The type of advertising that suggests to the viewer or listener, "I have only one life to lead; let's live it up," surely brings contempt to the very concept of self control. Do you think that is an area of good taste to go into?

Mr. VAUGHAN: Mr. O'Keefe, I am not sure that your question relates to the terms of reference of this committee. However, I will try my best to give you an answer. Yes, there are various questions of good taste in advertising and we are the first ones to acknowledge that. Not only ours, Mr. O'Keefe, but all the media in the business, including the Better Business Bureau and so on, acknowledge that. I do not know whether you have had time to go through this little pamphlet contained in the back of our book, The Canadian Code of Advertising Standards. It is a code to which all the major organizations in the media field and the Better Business Bureau and so on adhere, and it is one which this institution of Canadian advertising was instrumental in developing.

In our brief we start right off with false or misleading advertising, and we give our opinion on this. We certainly do not endorse it in any way whatsoever. In so far as good taste in advertising is concerned, this is a sort of subjective thing, let us say, and it would not be in our own interests to recommend to our clients that they use advertising which is not in good taste, because that type of advertising would not appeal to the public unless, in turn, the public did not have good taste itself.

Mr. O'KEEFE: Who decides what is in good taste?

Mr. VAUGHAN: I think the public decides, because, if we do something or if we ever did something, let us say, that the public did not consider to be in good taste, we would be the first ones to hear about it because the public simply would not have anything to do with the products promoted, if that were the case.

Mr. REYNOLDS: With respect, Mr. Chairman, may I ask for clarification? This committee is charged with a tremendous responsibility. Therefore, I think in terms of your opening the session today, Mr. Chairman, by referring to the fact that the freedom of conversation must pervade in order that we gather knowledge. This is our only purpose. We do not come here with any position of selfish bias in order to lobby a position. Not at all. We are as keenly interested in

finding solutions to problems that exist relative to the total welfare of the Canadian people as is this committee. We say that with the deepest of sincerity.

However, Mr. O'Keefe, you referred to advertising, and I believe your expression, unless I misquote you, was that it persuades people to release themselves from self control. Now, I believe that the good news on radio, television and in the newspapers is irritating to some people, but that some people might think that the good news is the advertising. I think it is informative for people, who, after all, still have the right to choose whether or not the wish to buy the product or the service advertised.

Would you please give an example of where it encourages people to relinquish self control?

Co-Chairman Senator CROLL: Mr. O'Keefe is not, of course, answering questions here. You are.

Mr. O'KEEFE: I could easily answer it.

Mr. REYNOLDS: I thought I would try it once.

Mr. O'KEEFE: I could very easily answer the question.

Co-Chairman Senator CROLL: No, no.

Mr. O'KEEFE: I suggest, however, that you were not quoting me correctly. I said that some of your advertising suggested contempt for the very concept of self-control. At any rate, Mr. Chairman, I will pass on.

Co-Chairman Senator CROLL: Ladies and gentlemen, I have got a very long list. Will you try not to be too long the first time round? We will have Mr. Whelan now.

Mr. WHELAN: First of all, Mr. Chairman, I think Professor Firestone's report should be printed, and I want to make a motion to that effect at this time. It is one of the best documents this committee has had submitted and it should be made available not only to the committee but to the thousands of people interested in these hearings.

Now, my first question is what percentage of advertising agencies in Canada are United States owned?

Mr. REYNOLDS: I would ask Jack Milne to answer that question.

Mr. John N. Milne, P. Eng., Personal Member, Institute of Canadian Advertising: There are 48 members in the Institute of Canadian Advertising which we represent. This does not include all the rest of the agencies in Canada. I cannot speak for them. Among the 48 members there are 15 American-owned agencies.

Mr. WHELAN: Do you have any knowledge of how much of the money they earn goes back to the United States, if any?

Mr. J. N. MILNE: We have no knowledge on that, Mr. Whelan. Of the $345 million worth of billings that our association manages we know that about $100 million are handled by United States agencies. In other words, it is something less than 30 per cent. But what percentage of that goes back to the United States, I cannot answer, except to point out that in total our members make less than one per cent net profit.

Mr. WHELAN: In Canada we have a lot of magazines and different publications from the United States. How much overflow advertising is there in *Life, Time, Look,* and other magazines of that type?

Mr. J. N. MILNE: If all American publications are added together, and this is, I confess, a rough figure which I worked out last night, I estimate that approximately 13,500,000 copies of U.S. printed publications come into Canada in a

given month. So, roughly, two and a half U.S. publications are available for every Canadian household per month. In addition, something like 40 per cent of all Canadian homes can receive U.S. television. Another rough estimate that I have is that approximately 15 per cent of all television watching time is spent watching U.S. television.

Mr. WHELAN: What percentage was that?

Mr. J. N. MILNE: Fifteen per cent of the total time spent watching television is spent watching U.S. stations. That is, of all Canadian television households.

Mr. WHELAN: I understand that, yes. What effect does the overflow of American radio, television and other news media, have on Canadian consumers?

Mr. SINCLAIR: Well, sir, it is clearly of significant benefit to a company which is advertising in the United States. These are largely American owned companies. From the presentations that have come to you from various food manufacturers, you are aware of the number of those which are American owned or which, at least, distribute very largely in the United States. Clearly, the advertising that reaches Canada through their advertisements in magazines such as *Life*, and so on, and through over the border television stations, or, in other words, advertising which reaches the most densely populated and richest markets of Canada, is an advantage to them.

It is an interesting point to bring up *vis a vis* a recent suggestion made to this committee for a tax upon advertising in Canada. The suggestion was to find a device to reduce advertising by some figure in the order of 20 to 25 per cent, I believe. If, in fact, that were to be achieved by whatever device—and I suggest that a tax would not do it unless it were a horrendous tax, but if a device were found to reduce the total advertising volume by 20 per cent, then you would have to face the fact that it would be a serious handicap in terms of a Canadian company's competitive position against an American company, because the American advertising would flow in at an undiminished rate. In fact it might be enhanced.

There would be nothing whatever to prevent an American advertiser from increasing the weight of his advertising on border broadcasting stations in order to compensate for reduction in advertising on Canadian broadcast, and perhaps the Canadian company might even pay for that by passing on another dividend to its American parent company.

The result would be a very serious and dreadful hardship on Canadian-owned business, and would have the effect of enhancing the position of the American companies.

Mr. WHELAN: Just following along from what Mr. O'Keefe was asking you, although on a slightly different line do agencies ever tell clients not to introduce new products?

Mr. VAUGHAN: Yes, Mr. Whelan, we do. We are often asked to counsel clients on various areas. Sometimes this might be our recommendation. It would depend on all the research that the client had done and upon any research that we might do ourselves.

Mr. WHELAN: If the product on the market is being accepted by the public, you might, through your own research, tell them that it is not necessary to introduce a new product because the old one is selling just as well as ever.

Mr. SINCLAIR: May I add a supplementary answer, sir? A specific example occurs to me, in which the company I work for advised a client against entering a Canadian market. This was several years ago in the cake mix business. Cake mixes were still a fairly modern product and were then sold for something like

38 cents, if my memory serves me well, and there was enough mix in a box to make a two-layer cake.

Our clients told us that their American company had just bought a cake mix company and were going to bring a cake mix into Canada and they wanted us to prepare a plan for them. We did a serious market study—and Mr. J. N. Milne worked on that with me. It took us some weeks to come back to the client with an answer. We told the client that, because cake mixes were still fairly new on the market, just about everybody was distributing cake mixes through the supermarkets. The cake mix shelves were over 20 feet long. We had reason to believe that the supermarkets did not want an additional brand. There was no evidence that the public needed an additional choice. We told them, "It will cost you a huge amount of money in advertising to establish a market segment, and it will be difficult to hold that market segment because you have really nothing valid to offer. The public does not need another cake mix. We believe it would lose money and there would be no reason to put it on the market". The advertiser, in fact, accepted our advice and we lost a potential half million dollars a year in advertising.

Mr. WHELAN: Another question arising out of the tax aspect. Some representations have been made to me from weekly newspapers and independently owned radio stations and one independent television station. Would a tax on advertising affect all media in the same proportion?

Mr. VAUGHAN: I'll ask Mr. John Milne to answer that.

Mr. John M. Milne, 1st Vice-President, Institute of Canadian Advertising: A tax on advertising, or a restriction on advertising, or a limitation would not necessarily reflect lower consumer prices, but there are a number of other ways in which the consumer can be affected by such a tax on advertising, or anything that would limit advertising. These are subsidiary by-products; they are not direct. For example, say there was a 20 per cent tax, the figure that has been used before. If the newspapers were organized to cut back 20 per cent in advertising that would mean 30 per cent reduction of newspaper pages over all, covering editorial as well, because editorial must necessarily be cut back too. That would mean, of course, that there would be less newsprint bought for Canadian requirements.

Mr. WHELAN: Would it affect the independent weekly?

Mr. J. M. MILNE: About 30 per cent of the small newspapers in this country would go bankrupt. They would hit their critical point if there was a reduction in advertising. A number of smaller newspapers that are now daily would have to revert to weekly. It might not hit the large papers like *La Presse*, or the Montreal *Star* or the Toronto *Star*, to the same extent, but it would hit all the smaller papers in the smaller communities. Another thing we must keep in mind is that any limitation of this nature, if followed through in the United States, would mean a cutback of 50 per cent in our sales of newsprint there as well.

Mr. VAUGHAN: So far as the effect on broadcasting is concerned, I will ask Mr. Reynolds to deal with this portion.

Mr. REYNOLDS: It would mean much the same thing in the broadcasting field. The licence to broadcast comes from the Department of Transport through the Board of Broadcast Governors. Now, it is expected that advertising shall be in good taste and shall be well presented. It cannot amount to more than 12 minutes in every hour and we have to keep in mind that licences are only issued in communities where there is enough revenue from advertising to operate the station. These are all set down as regulations in good faith by the powers given

to the Board of Broadcast Governors. If the 20 per cent cut—and this seems to be the minimum figure recorded at prior hearings of this Committee—it would certainly be in the judgment of this institute likely that one third of the stations other than the private network stations would be put out of business, and on those grounds we believe it would be a very serious disservice to the Canadian public regardless of what it might mean otherwise.

Mr. WHELAN: Coming to another aspect of this, do agencies make agreements with the chain stores for shelf space and aisle displays and do you collect commissions on them?

Mr. J. M. MILNE: No.

Mr. WHELAN: And another question along that line: would advertising sell any product at all?

Mr. REYNOLDS: This will be a very short answer—yes. It will sell anything, but it will hasten the demise of a bad product.

Mr. WHELAN: Some of the manufacturers have said, and I was wondering if this is true, that bilingual advertising costs more.

Mr. VAUGHAN: Well, I think Mr. Charland is our authority on that. It does, of course, add to the cost of doing business.

Mr. CHARLAND: Yes, that is one of the facts of life of doing business in this country. Often, of course, the costs are not as great as one would suspect. A good advertising campaign in English may very well be a good campaign in French. In many instances however we cannot adapt or translate or bring to the French media the same campaign as we bring in English.

Mr. WHELEN: Is not this an advantage for our exports that have this situation?

Mr. CHARLAND: We could not get along in our business if we could not provide excellent professional services in both languages.

Mr. WHELAN: But this is an advantage to Canada in her export trade by a virtue of having people with this ability.

Mr. CHARLAND: Very much so.

Co-Chairman Senator CROLL: Mr. McCutcheon has a supplementary question.

Mr. MCCUTCHEON: I want to refer to the answer given about hastening the demise of a poor product, and I refer to page 8 where the same thought comes through "Thus, one effect of good advertising will often be to destroy a bad product". The inference there, I take it, is that your people are quite aware of the fact that you must be advertising some bum products. How are we going to arrive at the stage where you will not accept advertising for what you know to be a bum product?

Mr. VAUGHAN: Mr. McCutcheon, we would never advertise what we believe to be a poor product or just any product. We are not only advertising people ourserves, we are also consumers, and we have our own self-respect. We certainly would not have anything like this in our association, and this is laid down in our code.

Mr. MCCUTCHEON: But we are here to try and help you and ourselves. What do you suggest so that you will not fall into that trap?

Mr. VAUGHAN: What we are suggesting is that the public has the answer to this whole thing, and if a product is put on the market, no matter what type of research has gone into it, and no matter what amount of advertising is behind it, if the people do not want it that product is not going to survive. I think there are

several good examples within the memory of people here. The primary one, I think, is the Edsel. This was an outstanding motor vehicle but it was not what the public wanted. It was researched inside and out, but it was not what the public wanted. The advertising, as Mr. Reynolds said, probably contributed to the rapid demise.

Mr. McCutcheon: But this was not a bad product.

Mr. Vaughan: That is what I am saying.

Mr. McCutcheon: How do we find out ahead of time that we should not have to accept advertising relative to a bad product?

Mr. Reynolds: There are two parts to this. First of all, with reference to your choice of words, we again say that we do not advertise bad products. If at times we do so, we do not do it knowingly. After all as operators of a business, and this is strictly a business, we are in the position where we must answer to our shareholders. In the first year of advertising of a new product it is rare that an advertising firm will make profits on the advertising of that new product. There is too much involved with regard to staffing and personnel and the depths of study necessary. We would not knowingly take on a product that has not been researched to establish the fact that there was a need on the market for this particular product or service. What codes and measures are used by which we can apply judgment as to whether or not it has a possibility for success is a matter upon which Mr. Milne is the expert, and I would ask him to speak about this.

Mr. J. N. Milne: May I make a contribution in another direction. I think it is important to recognize that approximately $800 million was spent on advertising in Canada in the past year. Our agencies, the agencies for which we speak, are responsible for managing about $345 million of that $800 million, less than 50 per cent. This is approximately 85 per cent of all advertising that is handled by advertising agencies. The remainder of the advertising, $400 million approximately, is not handled by advertising agencies but is placed directly by retail stores and others, with a great volume of retail advertising and classified advertising with which we have nothing to do. There was a case in Toronto last week—and I believe there has been one here in Ottawa—where a man was charged with false and misleading advertising with respect to a device to be put on a car. That advertising was not handled by an advertising agency.

Co-Chairman Senator Croll: Well, you brought up the subject and I did not. A well-established organization here in Ottawa was fined, and that was certainly handled by an advertising agency. It is a matter of record that Loeb was fined $500, so the papers reported. That was handled by an advertising agency here, and Loeb Limited were prosecuted under the Combines Act.

Mr. J. N. Milne: I am not familiar with the case.

Co-Chairman Senator Croll: Well, I am; it was reported in the press.

Mr. Reynolds: For clarification, might I say: it was not handled by an advertising agency—

Co-Chairman Senator Croll: Now, wait a minute—

Mr. Reynolds: With respect, sir: the Dominion Bureau of Statistics reports over 100 advertising agencies, but the Institute of Canadian Advertising has 49 members. There is a very marked distinction between qualification for national franchise to conduct an advertising agency and the acceptance of D.B.S. standards in the broader classification of advertising agency, as a generic term. With respect, I must draw that differentiation.

Co-Chairman Senator CROLL: Well, I do not understand your "differentiation." I said it was some agency. I do not know whether they belonged to your organization or whether they do not.

Mr. J. N. MILNE: Not to our knowledge.

Co-Chairman Senator CROLL: It might not be to your knowledge. You did not even know about it, but it did appear in the Ottawa papers.

Well, let us get the record for a minute. I think I have it here. It hit me significantly.

Yes, here it is:

> Misleading advertising costs Loeb $500 fine.
>
> M. Loeb Limited, owner of the I.G.A. store chain, was fined $500 in city magistrate's court Monday for misleading advertising distributed Nov. 30, 1965.

—in connection with whatever it was. I do not know who did it, but I have no doubt a firm like that would have an advertising agency.

Mr. J. N. MILNE: We do not know.

Co-Chairman Senator CROLL: When you raised the point I merely indicated that.

Mr. SINCLAIR: It is rare for retail stores to use the services of an advertising agency to prepare their advertising.

Co-Chairman Senator CROLL: You may be right, but it would be very interesting to find out.

Mr. SINCLAIR: It would, indeed.

Mr. J. M. MILNE: I think we should get some supplementary information on that one. We could easily find out.

Co-Chairman Senator CROLL: In order to set the record straight, I have just been informed that the advertisement was not prepared by an advertising agency; it was prepared within the company's own organization.

Senator CARTER: Mr. Chairman, we have been told that the total volume of advertising in Canada is around $800 million. Have you any breakdown of how it is shared out between the newspapers, television and radio?

Mr. VAUGHAN: We have this, and Mr. Milne has it in considerable detail. We anticipated questions of this character, and we have come prepared to answer them. We have done considerable research and have called on the media bodies, and they have given us the utmost co-operation.

Mr. J. N. MILNE: The share I have is for that portion for which we are responsible, the $345 million in which we are charged with the management. 49 per cent is through print publications; 32 percent through television; 5 per cent through "other visual"—somebody beside myself will have to tell me what "other visual" means.

Mr. VAUGHAN: Outdoor.

Mr. J. N. MILNE: Twelve per cent through radio; and approximately 2 per cent a miscellaneous collection of other things.

Senator CARTER: Was it 39 per cent for television?

Mr. J. N. MILNE: No, 32 per cent—49 per cent print, 32 per cent television, 5 per cent other visual, 12 per cent radio.

Senator CARTER: Have you conducted research as to the relative effectiveness of the various media? For instance, only 32 per cent television as compared

to 49 per cent publications, is that a measure also of the effectiveness of the different media?

Mr. VAUGHAN: I would not say that was necessarily an index of their effectiveness. Certainly, a great deal of research is conducted both by the media and by the advertisers and by the agencies on the relative effectiveness. But normally this has to be keyed to the purpose that one has in mind. If one is trying to promote one type of product one uses one type of medium, and another type of product might have a different media pattern.

Senator CARTER: It is affected by the type of commodity?

Mr. J. N. MILNE: Yes, and the time of day, and many other things that go along with it.

Senator CARTER: I presume advertising agencies choose their words with very great care. I note on page 9 you say that advertising "may" lower production costs and "can" reduce sales expense. You must imply there that it may lower or may not lower, or even increase. When we had Dr. Deutsch before us he emphasized the importance of the total demand of the economy. Total demand is made up of the total demand of the individual commodities that go into the economy, and while we can appreciate that advertising is essential, particularly for establishing a market for a new product, is there not a point beyond which advertising does not increase the total demand but only persuades the customer to choose one particular type of the same product in preference to another?

Mr. VAUGHAN: I see your point. Mr. Sinclair is going to answer this.

Mr. SINCLAIR: There is such a point; that is quite true. As you say, we choose our language very carefully. We believe the net effect of advertising expenditures in Canada—the $800 million of them per year—does indeed lower the cost of goods in Canada. However, as we say in our conclusions which were read at the beginning of the meeting by Mr. Vaughan, we want the facts. It is a very difficult thing to get at because there are so many variables that affect sales. One could go into this at great length. The state of the economy, the introduction by a competitor of a new brand, changes in fashion, and many things other than advertising can affect a product's success. So, we want research which will have to be a very serious, exhaustive and lengthy study to isolate advertising's effect on any given category and industry generally. As Professor Firestone said in discussing this recently, he believes it can be successful only against the total product category, but I think you should know we have a section in here headed, "Is Advertising Wasteful?"

I will not read it, but we go into it at some length. You may study it at your leisure, and I think you will find it useful. There is a great deal of work done to find out at exactly what point advertising becomes uneconomical. Advertising budgets are arrived at by the advertiser. We do not arrive at them ourselves —we have a self-interest in seeing them as high as they can be—and the advertiser makes his own decision, partly on our advice, but very largely on the basis of other consideration. He makes his predictions from all the pieces of data he can get. He considers the sales curves for the product in the past and forecasts what the picture will be in the future and forecasts the volume of sales and then arrives at a budget based on some percentage of sales which his business experience leads him to find reasonable.

How does he find that portion is reasonable? In the case of most of the sophisticated kinds of advertiser whom most of our companies represent, he does it by testing and will take a given region and try to choose that region by controllable advertising expenditure allotments.

He will choose a region that is within the reach of television if he is using television, or the reach of newspapers if he is using newspapers, and he will try

to perhaps double the advertising in that region. Then he will take another town and try to reduce the advertising, and then try to find out what happens to sales. If the sales respond to a given figure then that figure will apply nationally.

But, you will notice that as a result of some advertising some customers will move from Brand A to Brand B. However, I said that the effect of some advertising is the trading of brands—the trading of loyalties from one brand to another. But, in fact, when a great many voices are all urging you to use a given kind of product then usually the sales in that total category go up, so there is some market building effect in all advertising, in our opinion. I repeat that we do want documentation with respect to this, and we are conducting research into it.

Senator CARTER: We have found that witnesses who have appeared before us from various companies have done a lot of experimenting too with various types of media until they get what they regard as the proper mix for their particular product. I suppose you could not carry out your research to determine the saturation point without some close collaboration with them regarding their formula or their mix? Is that being done? Are you collaborating, or are you just conducting research on your own?

Mr. VAUGHAN: Senator Carter, there is the very closest of co-operation between client and agency in this particular area, as in all other areas, in order to project our joint experience against what is a real problem, because it involves a tremendous number of dollars, and it is in the interest of everybody to see that these dollars are spent most effectively. This brings me back to your original comment about our being careful about our choice of words. Actually, we should have been a little more careful when we used that word "waste"; we should have put it in quotes—because as Mr. Sinclair has said, if advertising does keep the dollar in circulation then there is a beneficial rub-off to the consumer sooner or later.

Senator CARTER: But both you and Mr. Sinclair referred to that wasteful advertising, and I mentioned it too. You used the term "wasteful" from the point of view of the advertiser rather than from the point of view of mis-allocation of resources in the economy and the extra cost to the consumer—the waste from which the consumer gets no benefit. Is not that so? Do you not deal with it more or less from the point of view of the person who is buying the advertising, rather than some—

Mr. REYNOLDS: There are two areas of responsibility. Is advertising wasteful, or is there wastefulness in advertising?

Senator CARTER: Wasteful to you.

Mr. REYNOLDS: All right. Is advertising wasteful? I answer flatly: No, because to categorize it across the board as a wasteful part of our way of life in our economy—there is no use going into the arguments there because they are manifold. Is there waste in advertising? There are two viewpoints in respect to that. Firstly, is there a waste in advertising from the point of view of the consumer's buying a product which has advertising built into its price. In that respect I would have to answer: Yes, on occasions, because advertising is not an exact science. Its efficiency cannot be measured yet in a computerized environment. However, we try to reach to optimum that you talk about so that the cost to the consumer is not excessive.

The other side of your point is: Is it wasteful to the manufacturer? He has the freedom of choice as to where he puts his money. He makes his choice in accordance with his judgment and all the research information at his disposal. As Mr. Sinclair has said, he strikes a case rate against his projection. Is there waste in this? The unsuccessful ones have incurred too much waste—that is, if the product is non-efficacious. The successful ones are those which have been

able to balance the equation of advertising costs in the end product so that it can be sold at a price that makes it available to the consumer, and which the consumer will buy in sufficient quantity in order to meet the manufacturer's objective. He, after all, is operating at a profit or a loss. There is nothing immoral in our society about making a profit, providing it is done within the laws governing the conduct of business in this country, and the moral responsibility of the manufacturer who employs advertising to move his commodity.

Mr. VAUGHAN: Could Mr. Sinclair supplement this for one moment?

Co-Chairman Senator CROLL: Gentlemen, if you continue in this manner we shall never finish. Only three members of the committee have had an opportunity of asking questions in the last hour. If you would save some of your supplementation I will guarantee that you will get another chance of giving it. I have a note here of the names of seven or eight members of the committee who have questions to ask.

Senator CARTER: I have asked only three questions, Mr. Chairman, but they have all elicited very long answers.

Co-Chairman Senator CROLL: Do you mind holding them until I come around to you again, or have you two short questions?

Senator CARTER: They are short at my end.

Co-Chairman Senator CROLL: Yes, that is the trouble. Do you mind if I call on someone else? I would ask all members of the committee to try to keep their questions as short as possible.

Mr. ALLMAND: Mr. Vaughan, I think you can answer my questions by either yes or no.

Mr. VAUGHAN: I will try to.

Mr. ALLMAND: I see from you Code of Ethics that you frown on, or do not approve of, false, misleading, unwarranted and exaggerated advertising. I would presume that your Institute would approve of a law that forbids misleading, deceptive and false advertising? Is that correct?

Mr. VAUGHAN: There are some laws presently existing.

Mr. ALLMAND: Yes, we have section 306 of the Criminal Code.

Mr. VAUGHAN: There is the Department of National Health and Welfare, and so on.

Mr. ALLMAND: Yes, and the Combines legislation.

Mr. VAUGHAN: We feel, Mr. Allmand, that self regulation is the strongest form of discipline, and we have tried very hard—not just the advertising agencies but the whole advertising business—to try to impose upon ourselves self regulation, as evidenced by this document entitled, "Canadian Code of Advertising Standards".

Mr. ALLMAND: Do you have a policing system for your own members?

Mr. VAUGHAN: We have our own Code of Ethics Committee, which is headed by some of the deans of our business, and it is a pretty tough committee.

Mr. ALLMAND: What happens if a member violates your code?

Mr. VAUGHAN: That member is immediately called in. Naturally there are two points of view to most questions. He is given an opportunity to express his point of view. If that is not satisfactory to the committee then they have to decide whether this member will be suspended or expelled.

Mr. ALLMAND: I see.

Mr. URIE: What happens to the other—

Mr. ALLMAND: Mr. Chairman, if you are going to limit the discussion then I would prefer that you limit it. I should like to pursue my line of questioning, if you do not mind, Mr. Urie.

Have you ever tried to set yourself up as a professional body, such as those governing lawyers, doctors and dentists, so that everybody who went into the advertising field would have to join a professional corporation, and then if a member violated the Code of Ethics you would have the policing of your own members in your own hands, in the same way as other professional bodies. Have you thought about this?

Mr. VAUGHAN: We have definitely thought about it, and we are working towards this. This was the purpose of the re-organization of our association two years ago, when we changed it from the Canadian Association of Advertising Agencies to the Institute of Canadian Advertising. We broadened our membership to include not only the corporate members like Mr. Reynolds and the agencies *per se*, but also introduced a personal member category. These personal members all adhere to this Code of Ethics that you have in the back of the brief.

Mr. ALLMAND: Since a large number of advertisers do not belong to your Institute at present, by your own admission—you said that a large percentage do not belong, and you brought up the Loeb case—

Mr. VAUGHAN: All are not qualified. A large number do not qualify because we have severe standards of competence.

Mr. J. N. MILNE: A large number of agencies, not advertisers.

Mr. ALLMAND: Yes, but there is a lot of advertising put out in the media that is not put out by members of your Institute. Therefore, it would require a lot of policing by your Institute, and we do require laws. You said you would prefer to do the policing yourselves, but I personally think that we need the laws.

In your discussion of wastefulness in your brief from pages 11 to 13 you discuss it from the point of view of whether the advertising brings a profit to, or increases the profit of, the advertiser. That is certain; I have read that thoroughly. At page 13 you go into another type of wastefulness—the mis-location of resources that Senator Carter brought up. There you state that this is a moral question, and it is not up to you to decide whether some little toy is a good or bad thing, or whether a towel in a box of soap is a good or bad thing, and so you do not consider that as significant, but I would point out that that type of wastefulness is the type with which we are concerned here. We agree that you are trying to make the biggest profit possible for your customer, and you are trying to make your advertising effective and non-wasteful from that point of view, but we are interested in what you bring up at page 13 of your brief—

Mr. VAUGHAN: Excuse me, sir,

Co-Chairman Senator CROLL: Just a minute. Let Mr. Allmand finish his question. What he has said so far is merely preamble.

Mr. ALLMAND: I have a few examples of advertisements which I picked up from slogans in the last few days, and I would like to know how they correspond to your code of ethics. For instance, on the bus this morning I saw this slogan, "Something nice happens when you drink Salada tea." I don't see how that can honestly come under your code A which says:

> No advertising shall be prepared, or be knowingly accepted, which contains false, misleading, unwarranted or exaggerated claims...

I don't know how anyone can claim that something happens every time you drink Salada tea.

Senator THORVALDSON: I can say that, sir.

Mr. ALLMAND: Are you a member of the institute?

Co-Chairman Senator CROLL: Just a moment. Mr. Allmand has the floor.

Senator THORVALDSON: Order, Mr. Chairman. I suggest that when the questioner refers to "we," when he uses the first personal pronoun, I don't want to be included.

Mr. ALLMAND: I have a few others: "Whiter than white." Then there is: "Things go better with Coke." And "You meet the nicest people on a Honda." None of these things seem to be true if you judge them against your code A, and also E, and a few others. But there are many things like this. How do prove that these things are true? How do you explain that something nice happens every time you drink Salada tea—and other things like that?

Mr. VAUGHAN: Mr. Allmand, Mr. Sinclair, before he became president of the agency, was the head of the Creative Department, and I think he can answer that better than I can.

Mr. SINCLAIR: I think the answer is quite simple. First of all, we are not here before you today to defend vulgarity. I happen not to think the examples you have chosen are vulgarity, but I want to put on the record the fact that we are aware that there is bad practice in every profession and every business, so far as I know, in the world. People are imperfect. We have no suggestion here to you that every advertisement that has ever appeared in Canada, even from our own companies, has been utterly free of some questionable taste in some people's eyes, and a—

Mr. ALLMAND: I am asking if it is true.

Senator THORVALDSON: Let him answer.

Mr. ALLMAND: I want to know if the claim is true.

Mr. SINCLAIR: My answer is, I do not happen to have anything to do with Salada tea, but I am entirely happy to agree that something nice happens when you drink Salada tea.

Mr. ALLMAND: What about something that is "Whiter than white"? That gives the inference that certain things are true about the product, and they are not true.

Mr. SINCLAIR: "Whiter than white," I don't know the context of that remark, or whether you have the advertisement in front of you, in which case I would like to see it. I do know whether it has been proved in laboratories that the result of using the modern detergents will be that a shirt, a white shirt, for example, after having been washed several times in the modern detergents, which contain fluoresces, will appear whiter after several washings than when they came out of the factory. This obviously is out of context, and if it appears to overstate the case, I am not going to defend it if the context did not amplify.

Mr. ALLMAND: Mr. O'Keefe asked about manipulation, and you said that you do research. Isn't a lot of research done by advertising groups and agencies to see how you can best coat the pill or best can identify a product associated with happy things, nice things, pleasant things, just like the examples I gave? Is it not an art—don't you try to do research and try how best to associate products with other things that are known to be good, whether there is any real association or not?

Mr. REYNOLDS: Yes and no.

Co-Chairman Senator CROLL: That is a good answer.

Mr. Reynolds: Yes, it is the responsibility of the creator of advertising to insure that he correctly presents his products. You talk about truth, and you have cited some examples here. I submit with respect that if you allege that these examples are untruthful you are presenting to this committee a subjective opinion, which you have a perfect right to do, of course, but I do not accept them because I do not believe that the advertising business as we represent it is engaged in a pursuit of things that are deceitful for anyone. Any advertising agency who by its client is coerced to compromise with the truth is not worthy of his franchise to do business. But until we have a code of regulations such as we advocate in our brief, where we advocate that an organization be set up to answer the very questions that you bring out whereby you can measure your subjective judgment against some universal standard that is in the interests of the Canadian people.

Mr. Allmand: How can anybody say—and this is a quote from something I saw on the bus—"Something is delicious whatever your taste"—delicious whatever your taste. How can they say something like that is true, that your taste is delicious?

Mr. Reynolds: We are hamstrung here because we are denied the privileges—

Co-Chairman Senator Croll: Just a minute.

Senator Thorvaldson: Mr. Chairman, these questions are entirely unfair and insulting to these people.

Co-Chairman Senator Croll: No, no, you have not been denied any privilege at all.

Senator Thorvaldson: The questioner should put questions and not make lengthy speeches, some of us want to hear from these men and not hear these diatribes against Canadian business which have nothing in them but abuse. I have no intention of listening to them. I think the chair ought to intervene.

Co-Chairman Senator Croll: Mr. Reynolds, you have not been denied, nor will you be denied, any right to say what you want to say here. If you have anything you want to say say it now, and continue to do so. We are here to hear your side of the story. I think the questions at the moment are pertinent questions and should be answered. Take your time in answering them.

Mr. Reynolds: With respect, I withdraw my reference to denial. But to specify the point, I would like to ask Mr. Allmand, and it is on a question of privilege, I ask him on what grounds does he present his observation that there is an inference that it is dishonest.

Mr. Allmand: I said that I do not see how it could be true, and I gave you some examples. For instance, "Whatever your taste, something is delicious." Or "You meet the nicest people on a Honda." I am not trying to accuse you of anything, but I am trying to get out the facts, and I am not trying to condemn any products—probably some of them are very good. However, I think advertising should be informative and true, and I do not see how you can say something like this is true, that whatever your taste, it is delicious.

Mr. Reynolds: Mr. Allmand, if they don't find it delicious they don't buy it the second time and if we don't say these things within the context of truth in advertising there would be a tremendous change in your media, because the good news in the media is the advertisement—surrounded by a lot of tragedy.

Mr. Allmand: I compare such advertising with the advertising of the Tuberculosis Association, or the campaigns for Red Feather. They seem to be factual. I must admit. They say you must support something because a, b and c.

It seems to me that these other forms of ads are not like that, but are trying to make very tenuous associations which I find very hard to support. I would like your comments following upon your code of ethics.

Mr. VAUGHAN: I would like to make two comments. First of all, you said your are not accusing us. We simply want to be helpful, that is why we are here, too, not to take sides one way or the other. We are here to jointly work with you in trying to develop answers to these things. You have cited certain headlines from certain ads and say they do not compare with what we call public service advertising.

Mr. ALLMAND: Your own code.

Mr. VAUGHAN: Yes; and incidentally this public service advertising is done by agencies in our group. If in fact you do have any United Appeal ads, and these are all done on a voluntary basis by the agencies, there are no fees or anything else in connection with them, if you do have them and if you will look at them you will find they use the emotional approach, too. I think the Canadian Government is the greatest example of the use of modern advertising techniques.

Mr. ALLMAND: And politicians.

Mr. VAUGHAN: No, wait a minute.

Mr. ALLMAND: I must admit.

Mr. VAUGHAN: The Government of Canada at one time found that the way to inform people was through the proclamation type of advertising, and they still have a role to play in certain instances; but when it comes to selling savings bonds, winter works, and that sort of thing, they are using exactly the same kind of approach as commercial advertisers, too. First of all, advertising is no good unless it is right, and you have to start off trying to get an empathy with the people, and this is why we develop those type of headlines. We don't believe they are untruths. It is a matter of opinion.

Mr. ALLMAND: I will pass it for now.

Mr. REYNOLDS: May I be afforded one moment, as a matter of personal privilege? In my earlier statement, in the last line, I believe I said that advertising was the good news—surrounded by tragedy. I understand that this was misunderstood by the press and I would like to make it particularly clear that the word was "tragedy".

Mr. LEFEBVRE: I believe in advertising—most of us here do—but we are all here to find out if advertising adds unnecessarily to the cost of goods sold. I have read your brief and I think you made a wonderful job of it. As a matter of fact, I came away with the feeling that you were setting yourselves up as the good guys of Canadian business and that those criticizing you were the bad guys, as we say in the television commercials.

I think you made a good job of selling yourselves to the Canadian people and I would like to see your comment on this. I can see why you are in the business and I would like to have your comments on the way you have set up your brief. Have you also, because you are in the business, made this wonderful job of selling yourselves to the people, in your defence of your business?

Mr. VAUGHAN: Is that a question, sir?

Mr. LEFEBVRE: Yes.

Mr. VAUGHAN: I would welcome the opportunity to make some observations. In the preparation of this brief, Mr. Lefebvre, we tried our best to be objective, but it is natural that we have a point of view on behalf of our own industry. If you read through it, it is not defensive in any way that we know of. We have had

it read by a number of people and they agree with us. Sure, it is a good exposition of the case pro and con, and there are both sides of it.

Mr. LEFEBVRE: You are using a hard sell approach and not a soft sell approach?

Mr. VAUGHAN: We were not using any sell approach, because what we were trying to do is what you are trying to do, be informative.

The document that we commissioned Dr. Firestone to do, as you know, raises a number of questions both pro and con, and questions which are bothering this committee here and ourselves as consumers, and bothering people with responsibilities similar to yourselves in other parts of the world. This is one of the reasons I regret it is not going to be on the record, sir, because I am sure it would be a best seller in *Hansard*.

Co-Chairman Senator CROLL: *Hansard* sells always.

Mr. LEFEBVRE: One answer which was given was that if advertising was reduced, one of the results will be a cut-down on the small newspapers and more advertising in the large dailies, and the end result will be a 50 per cent layoff in the pulp and paper industry in Canada.

Mr. VAUGHAN: It was Mr. J. M. Milne who answered that question and if you would like him to enlarge upon it he will do so.

Mr. LEFEBVRE: That is what you said?

Mr. J. M. MILNE: Yes, it is.

Mr. LEFEBVRE: I would like to take issue with this, because I understand that 80 per cent of the pulp and paper products manufactured in Canada are sold abroad. So, how do you get it, if only 20 per cent of the products are being sold in Canada, that 50 per cent of the workers in that industry would be laid off?

Mr. J. M. MILNE: What I actually said was I hoped there was nothing infectious about this idea or suggestion that there would be a 20 per cent cut-back in advertising in Canada, because if that same thing happened in the United States we would lose 50 per cent of our pulp and paper industry.

Co-Chairman Mr. BASFORD: According to Mr. Reynolds, it would do away with a lot of tragedy.

Mr. LEFEBVRE: On these famous cents off deals, of which we have heard many comments at previous meetings, apparently the wholesaler, the retailer and the consumer all have said they are against this type of promotional advertising. I would like to know who keeps it going, who dreamt it up and in fact is it your group that keeps this item on our shelves?

Mr. VAUGHAN: May I hark back to our brief for a moment? On page 6, in our definition of advertising, in paragraph 12, we say:

> All three elements in the definition are relevant—paid use, mass, and communications. Publicity and public relations may often have the same or similar objectives and use the same media but are not advertising; price-off deals, premiums, and trading stamps are often used by manufacturers to sell goods and services—the two latter are generally handled by several specialized organizations—but they are classed as promotion, not advertising. Similarly, the salesman at the door is not advertising. But all these are alternative ways of attracting attention, and creating consumer acceptance—and, as alternatives, they are competitors for the advertising dollar.

We are really not equipped to talk about those particular areas. We are in the mass communication business.

Mr. LEFEBVRE: But you do advertising. When you set up a series of advertisements or commercials, you advertise cents-off deals for manufacturers or in retail outlets?

Mr. SINCLAIR: When a manufacturer is planning his program for a given year, he is likely to set up a marketing budget related to his anticipated sales. His marketing budget will include all areas of promotion, in addition to advertising. Advertising is one item in the marketing budget. That budget is usually inviolate and inflexible. If the individuals in the marketing department responsible for advertising brands chose to decide, let us say, running a cents-off deal, that money has to come out of the fixed sum that is the total marketing budget.

It is likely to be a diversion from advertising and to that extent it reduces our income in the advertising agency business. Our self-interest is strongly opposed to any of this. However, we have to recognize the facts or life. Manufacturers have found these useful, you have had specific discussion of them from a number of food manufacturers and I am sure I do not need to amplify the case they have made. It is their case and not ours.

Mr. LEFEBVRE: So there is only one section of the industry that is in favour? Every other section is against it?

Mr. SINCLAIR: You are saying that, not I.

Mr. LEFEBVRE: That is the evidence we have had, including yours today.

Mr. SINCLAIR: It certainly is no advantage to the advertising agency. To come back to the question you were asking, yes, we do advertise them occasionally, when a manufacturer is going to offer his product at ten cents off normal prices, occasionally advertisements are run. I say "occasionally" because usually the purpose of this is to replace advertising, so the amount of advertising of cents off deals is not considerable.

Mr. LEFEBVRE: On page 28 of your brief you have your conclusions. In number 3 you say:

> In many cases advertising, by contributing to the expansion of existing markets or the development of new ones, also contributes to lower prices and in such instances is anti-inflationary.
>
> 4. Advertising also frequently lowers selling costs and in this regard also has an anti-inflationary influence.

But if you go on to page 13, you find in paragraph 49:

> Two months ago, the Consumers Association of Canada made up two shopping lists for a family of four, based upon purchases were comparable from a nutritional point of view, and yet one lot totalled $34.87, the other $18.62.

If I remember correctly, the one that totalled $34.87 contained all the national brand highly advertised items. How do you relate your conclusions to the fact that the highly advertised brands, which are probably most wanted by the public, cost almost twice as much as those little advertised but which are every bit as good, according to this, in nutritional value?

Mr. VAUGHAN: That is quite possible, sir. I think the things you probably have not mentioned, because they were not contained in the report, to my knowledge, were several very important things from the point of view of at least my wife, and she buys for seven children, so she knows what we are talking about here today. What it does not mention is the time it took this lady to do the shopping on her $34 or other basis, nor does it mention the choice that this lady had. If my wife wants to spend a couple of hours in the supermarket, she can shop for a little less, there is no doubt about that, but if she wants to do her job as a wife to me and as a mother to her children, I am quite prepared to pay a

little more—and we have some figures that will show you just how much more that will cost.

Mr. LEVEBVRE: I agree you are quite prepared to do it, and I think the average person in Canada might be quite prepared to do it, but in what other way can she earn for herself $9.00 an hour, if she took two hours over the shopping. This amounts to a lot over a period of 52 weeks. It does not make the highly advertised goods the best value.

Mr. J. N. MILNE: In regard to the list to which you are referring, many of the things on the lower price list, and this is important to remember, were not things that are advertised at all. They were bulk quantities of carrots, potatoes and things like that, which are not nationally advertised.

Senator THORVALDSON: May I ask a supplementary question on that, Mr. Chairman? I think it will be helpful. I read that paragraph last night, too, and I do not know what you are trying to prove. I would like to know what you are trying to prove by that paragraph.

Mr. SINCLAIR: It is explained in the next paragraph.

Senator THORVALDSON: Perhaps I spoke too soon. I saw that the next paragraph was rather long.

Mr. VAUGHAN: On page 14 of the brief—

Mr. LEFEBVRE: We did not get the answer yet. What are you trying to prove?

Mr. VAUGHAN: At the top of page 14 of the brief, paragraph No. 50, we say:

> While this was a valuable lesson in budgeting, it probably comes as no surprise to a housewife to learn she can buy high-priced and low-priced items. The real significance of the experiment, perhaps, was that the two shopping lists were made up in the same store.

That is what you said.

> The various types of goods were all openly displayed, all inviting selection. The difference in selection is thus a matter of consumer's choice, in which a number of factors might play a role—personal or family taste preferences, previous buying experience, the desire for variety, or the appeal of convenience factors, such as speed and ease of preparation. The function of advertising is to present the consumer with the array of possible choices—and experience indicates that advertising often enables the housewife to make up her shopping list before she even goes to the store—whether she is shopping to save pennies, to splurge for some special occasion, or to find packages that will add to her available leisure time.

Mr. LEFEBVRE: In any case, I still cannot relate your conclusions to these paragraphs, because the chain stores said just the opposite. They had just the opposite approach in this particular instance.

Mr. SINCLAIR: May I refer you to page 17 in our brief, which comes under the section on Product Differentiation? In paragraph 63 we say that:

> When the market for brand name products reaches a certain size, new suppliers will often try to enter the market. These are the product imitators who offer their products at lower prices than those charged for brand name products. Product imitators usually spend little money on product development and on advertising. Nonetheless, advertising makes it possible for the product imitator to offer his lower-priced product because the product initiator has helped create the market of which the product imitator now wants a share. Thus, advertising helps both the product initiator and the product imitator even though the latter may not pay for it at all or only to a minor extent.

We go on to amplify that, but the point is that, indeed, private brands usually have lower prices, and are usually inferior, but the fact is that advertising has made them possible in the first place by establishing the demand for the product.

Mr. LEFEBVRE: Just a moment. You say that they are usually inferior, but we have had people here who have told this committee that they are usually of equal value.

Mr. SINCLAIR: Sir, I have quotes from two of your previous witnesses, Lever Brothers and Procter and Gamble, which I am prepared to read to you. However I am sure you have read them yourself.

Co-Chairman Senator CROLL: But Mr. Lefebvre is referring to other companies.

Mr. LEFEBVRE: Yes, people like A&P, who have house brands which they say are every bit as good as the national brands, although you say they are not.

Mr. SINCLAIR: Sir, you have evidence in two directions, have you not? You have evidence before you which says that some private grands are equal in quality, and you have other evidence which says that private brands are not. This is not my evidence and I cannot speak to it.

Mr. LEFEBVRE: All right. On page 94 of Professor Firestone's Economic Implications of Advertising, and I think this comes back to what we were discussing just a minute ago, he refers to Professor Johnson; he says:

> Professor Johnson observes that a certain amount of waste is characteristic of a wealthy society and he concludes that "we can afford to buy advertised brands, instead of hunting for the lowest priced source of supply. If we could not afford it, advertising would not exist, or at least the advertising that would exist would be so utilitarian as to be unobjectionable to even the most moralistic social critic."

So it points out that the cost is not always lowered, but that people are given a bigger choice, it they want to pay more.

Mr. VAUGHAN: Thank you for reading that into the record.

Mr. LEFEBVRE: I have just one more question, Mr. Chairman. I would like these people to elaborate on their suggestion that they form a Council of Consumer Affairs although they say that they feel the committee is better prepared than they to do so. Perhaps you would like to elaborate on that?

Co-Chairman Senator CROLL: Just while you ask the question, will you turn to page 155 of Dr. Firestone's exhibit? Have you looked at Dr. Firestone's views on that point? Read that and see if it is not a little greater elaboration of what the witnesses were trying to say. Just read that for a minute.

Mr. VAUGHAN: Perhaps he would read it out loud.

Co-Chairman Senator CROLL: Don't worry, somebody will get it on the record.

Mr. LEFEBVRE: Would this coincide with your thoughts on the proposed consumer council?

Mr. VAUGHAN: We feel that—

Co-Chairman Senator CROLL: Look here, we are talking in a bit of a vacuum, You had better put it on the record. Do you mind if it goes on the record?

Mr. LEFEBVRE: No, not at all.

Mr. VAUGHAN: Mr. Reynolds will read it.

Mr. REYNOLDS: It reads:

> Consider placing consumer interests as a matter of continuing concern of Parliament and of Government. The former could be achieved by establishing a Continuing Special Joint Senate-House of Commons Committee on Consumer Affairs, taking the place of the present Special Joint Senate-House of Commons Committee on Consumer Credit (Prices). The latter could be achieved by appointing an economic advisor to the Prime Minister on consumer affairs and the establishment of an Advisory Committee on Consumer Affairs reporting to the Government of Canada through the Privy Council.

Mr. LEFEBVRE: So, the association's views coincide with Professor Firestone's?

Mr. VAUGHAN: These are Dr. Firestone's views, and we would be prepared to endorse them. I would make one thing clear, though; this whole consumer thing is a matter of timing, and I think it needs thorough study by a committee made up of Government and consumers. The reason for that, Mr. Lefebvre, is that you, as members of Parliament are representing the people of Canada. You do not want, I would think, to let that particular responsibility go to some smaller segment. We think that the whole thing needs a great deal of study before it is decided just where it can fit best. That is why, in our own brief, we suggest doing it in various stages, so to speak, so that we can learn as we go along and we can do whatever seems best. In this way we can maintain a certain flexibility at this stage, until we have thoroughly exhausted the subject and have decided upon what would be best in the long term.

Mr. LEFEBVRE: Thank you.

Mrs. MACINNIS: You claim in your brief that advertising lowers the cost to the consumer. Would I be right in believing that advertising has been increasing over the last few years? Evidence that we have had would indicate the advertising has been increasing in amount over the past few years.

Mr. VAUGHAN: Would you like the figures on that, Mrs. MacInnis?

Mrs. MACINNIS: Yes.

Mr. VAUGHAN: Mr. Milne has that information.

Mr. J. N. MILNE: As a percentage of G.N.P. it has been going down.

Mrs. MACINNIS: Well—

Co-Chairman Senator CROLL: Mrs. MacInnis, you can ask for whatever information you wish.

Mr. J. N. MILNE: The total advertising expenditures in Canada have been increasing in the last five or six years. The figures since 1960 are as follows:

1960	$584	million
1961	$601	"
1962	$632	"
1963	$659	"
1964	$701	"
1965	$761	"

And in 1966 the total advertising expenditures in Canada will be about $821 million. So they have been going up steadily.

Mrs. MACINNIS: That is fine. I do not need any more information on that.

Mr. VAUGHAN: Excuse me, but may I add something.

Co-Chairman Senator CROLL: Do you want to supplement that?

Mr. VAUGHAN: Yes, just to get it in perspective.

Mrs. MACINNIS: Do I need any more? I have got what I want.

Co-Chairman Senator CROLL: It is just what you require.

Mrs. MACINNIS: Yes, this is what I want. Now, in view of these two facts, how do you account for the fact that food costs to the consumer have increased so very sharply in the last 18 months?

Mr. VAUGHAN: I think this is developed to quite a degree in Dr. Firestone's report. If I might just refer you to page 22 in our brief, where we give you the figures on personal disposable income and so on, I think you will see the personal disposable income has gone up 47 per cent, consumer expenditures 43 per cent, personal savings 123 per cent, and advertising expenditures 34 per cent. So you will see that advertising has not gone up as much as most of the other things.

Mrs. MACINNIS: Let us forget about the paragraphs in the brief for the moment. I would like to know, in view of the fact that you say advertising lowers the cost to the consumer and that we know that advertising has been increasing very sharply, what is the explanation of the fact that food costs have gone up so sharply in price, in fact twice as much as other factors in the cost of living, in the last 18 months? Instead of hearing quotes from the brief, I would just like your own explanation.

Mr. J. N. MILNE: I would like to point out a correction of fact. Although food prices have gone up in the last 18 months, advertising has not increased sharply.

Mrs. MACINNIS: Let us say advertising has increased, then.

Mr. J. N. MILNE: Only 23 per cent in the last six years.

Mr. REYNOLDS: It is important to take these in relative terms in order to get a valid comparison, but go ahead, Mrs. MacInnis.

Mrs. MACINNIS: I wanted it rounded out. You see, I am not interested now in picking out particular figures. I want to know why, if advertising lowers the price to the consumer, the price of food has gone up twice as much as the rest of the index in the last 18 months, and why it has all gone up.

Mr. REYNOLDS: Oh, well, you are assuming here that the inherent cost of advertising is the sole factor contributing to the increased costs.

Mrs. MACINNIS: I am not assuming that, but you say that advertising lowers prices, but prices have gone up. How come?

Mr. REYNOLDS: We are trying to establish a relationship here, which is the mixing of two ingredients which are not compatible. For instance, the Canadian Federation of Agriculture appearing before this committee—and I am speaking from memory—stated that the cost of bread had gone up 90 per cent over a five-year period. Yet I believe, if I quote correctly, it was Senator McDonald who stated that bread, as a commodity, had probably the lowest rate of advertising against it of any of the food products. You cannot, therefore, conclude that the 90 percent increase in the cost of bread has been occasioned by the cost of advertising. On the other hand, the cost of advertising, improving the total commodity usage, means that the fixed overhead charges against that commodity, because it is made available to a broader segment of the public, must therefore bring the prices down. The converse of your question could readily be that the cost of food without advertising broadening its use might have inflated the price beyond what is today. I think this is a matter of subjective judgment.

Mrs. MacInnis: I think it is; I am quite sure I would not go along with that. I will try to make my other questions clear and simple and I hope you will do the same with your answers.

Mr. Reynolds: May I be privileged to ask Mr. Sinclair to give a small supplementary consideration of this.

Mr. Sinclair: I wanted to put into context the cost of advertising foods. As we have said earlier 800 million dollars is the estimate of total advertising in a given year in Canada against a population of 20 million. This works out at $40 a head for all advertising in a year. Food advertising accounts for approximately 25 per cent of the total. If we take 25 per cent of that sum we find it comes to $10 per head, and if you divide that by 365, which is the number of days in a year, it gives you so many cents per day.

Mrs. MacInnis: I wanted to make clear or to be certain whether you were accepting responsibility and in what measure you accepted the fact of advertising adding to the increase in the cost of food, and obviously you do not. Now, in connection with people trying to get by on a limited budget—20 per cent of the people in Canada get 4½ per cent of the income. Yet these people have to spend over 40 per cent of their budget on food. What I want to know first is what does glamorous advertising do to the food budget of these people on small incomes where the children are pressured through advertising and so on to buy these products? What does this do to the family budget? Does it not push it out of line in certain areas?

Mr. Vaughan: Would you like us to go back and review the original question asked by Mr. O'Keefe regarding this?

Mrs. MacInnis: No, I heard Mr. O'Keefe's question and mine is a different one. My question is about the effect on the family budget. You were speaking of the desirability of parents and people imposing self discipline. But where a family has disciplined itself on the amount of money to be spent on food, rent and so on, what does glamorous advertising do to that family?

Mr. Vaughan: Mr. Lefebvre cited the shopping study done in Ottawa and this study showed that commodities could be bought at various levels of price. There is nothing to force this family, and I am as concerned about this family as you are when they buy what you call glamorous products. They can buy in bulk if they so wish. This is a matter of personal choice, and if an individual happens to want to buy something in a fancy package that you just put in the oven and which can be taken out and served, that is her choice. There is nothing to force her to do that. She can buy potatoes and peel them or she can buy porridge and put it on the back of the stove overnight. It may cost a little more electricity, but that is her responsibility.

Mrs. MacInnis: But you are the person who said that adults had a moral responsibility. But according to the advertising going on, is it not true that many Canadian families would exist not on a diet produced by the Canadian Food Guide but consisting of potato chips and pop. Is that not true?

Mr. Vaughan: No, it is not true. Advertising is a powerful tool but—

Mrs. MacInnis: Again this is a subjective decision, and we will let it go at that. There is no use suggesting that women should be quite prepared to pay more. Your relatives and mine might be prepared to pay more, but so many others do not have the money.

I want to come to a third point. You will remember that in your brief there was reference to the fact that we live in a society which is competitive, free, or rather that we live in a society which is a competitive, free, industrialized economy. What I want to ask is this: does advertising, by helping these big firms

to get into the position of monopoly or near monopoly, ultimately reduce competition at the expense of the consumers who suffer?

Mr. VAUGHAN: That is a very good question, and it is discussed in some detail in Dr. Firestone's brief which I have no doubt you will review later. Certainly big firms do have advantages, but on the other hand it is advertising that helps some of the little people to get established in business and not only to become competitive with big firms but to beat them hands down. In preparing for this meeting last night, Mr. Reynolds had a timely example of this concerning household scouring pads and how that started from nothing. I will ask Mr. Reynolds to tell you about this.

Mr. REYNOLDS: Yes, this deals with scouring pads, and I don't think there is anything much more mundane than scouring pads. The market in this line for a very long time was very static at about 2½ million pads a year, and the market was owned by one manufacturer to the extent that he had about 80 per cent of the market. There were two or three other minor brands, but they did not threaten him. Then one manufacturer came along and he was sufficiently enterprising to build into his product a detergent rather than a soap, and coloured it blue rather than pink because blue has become more synonymous with cleaning power. He also added a new ingredient, a rust inhibitor. In researching the market we found that women do not want to use a scouring pad just once and then throw it away. They save it and like to use it a second and a third time. The big deterrent to the product had been the rust factor, and if we could get rid of that we could increase its usefulness. We did research into this and we found that women reported that it had a higher degree of efficiency because of its multiple use opportunity. So it was introduced to the market.

A question was asked earlier as to whether agencies ever counselled their clients not to introduce a new product. In this instance the agency counselled its clients not to advertise a new product but to pack it and to distribute it free to households so that its efficiency could be demonstrated. The manufacturer did this, and he did it with $50,000 competing against the giant already established in the field, and within three years time he had captured one quarter of the market. Here there was an opportunity for an innovation, and a man with a little imagination was able to enter the market. You also ask "does advertising breed monopolistic tendencies where big money buys the market and excludes others?" I say no. Advertising alone will not help a large advertiser unless he is in a position to meet competition as is demonstrated by this giant attacked by David, and David's slingshot was a little better and he got the best of it.

Mrs. MACINNIS: What I had in mind was something else. I wondered if it would help the corner grocer to stand up to this competition. Take this as an example—I am quoting now from the *Financial Post* December 11th 1966. It says here "Weston group unveils huge empire." The point is this, and here I have two questions. First of all, I presume that advertising helped to build the Weston empire because I have seen lots of their advertising. What amount of competition is possible for the small corner grocery or even much larger concerns compared with this? I am asking two questions at this stage and I shall remind you of the second one if you forget it, but I would like to know how much freedom of choice is there for the consumer, particularly when you get these things perhaps even further advanced than we have now? Certainly at this stage, when you get a monopoly situation, how much freedom of choice is there for the consumer?

My questions are: First, how much competition is there for the smaller competitors now? Second, how much freedom of choice remains for the consumer?

Mr. SINCLAIR: I will answer that question.

Mrs. MACINNIS: Which one?

Mr. SINCLAIR: Well, let us start with the first, and you will remind me of the second, as you said, if I forget.

Mrs. MACINNIS: Right.

Mr. SINCLAIR: The first question, as I understand it, was an economic one rather than an advertising one—What chance has the little fellow against big business?

Mrs. MACINNIS: No, do not leave out advertising. I said advertising was responsible, to a large extent, for this.

Some hon. MEMBERS: Oh, oh!

Mr. SINCLAIR: On what authority?

Co-Chairman Senator CROLL: Now, just a minute. That is her question, and that is what she wants an answer to.

Senator THORVALDSON: That is not a question, but a statement of fact.

Co-Chairman Senator CROLL: It is up to them to deal with it.

Mr. WHELAN: It is her turn, and let her ask.

Mr. SINCLAIR: You have expressed your opinion, and I must express mine.

Mrs. MACINNIS: Quite.

Mr. SINCLAIR: I do not believe advertising is responsible for the remarkable success of Mr. Garfield Weston. And I do want to make one point: It startled me, when I read the ramifications of the Weston empire, that he should find it efficient to run such a complex organization under so many different names—and I gather that some evidence in front of you suggests that some of the Weston subsidiaries did not even know they were Weston subsidiaries. It seems to me that what Mr. Weston has done by policy, for some reason, is to deny his organization the strength that advertising could give him. There is the fact that a good advertising idea can be exploited remarkably. If I may draw one case history, Dominion Stores has had great success from a jingle that happened to catch the public fancy, based on the line, "mainly because of the meat." If Dominion Stores had had an empire under dozens of different names they would have been denying themselves the use of a highly effective advertising technique. By having all these different organizations doing different advertising campaigns, Mr. Weston is neglecting the unity and strength that advertising might give him, so I really do not know how advertising has made his empire.

Mr. VAUGHAN: I think the record will show—and I have personal knowledge of this—that George Weston Limited is spending less, corporately, on advertising now than it was 10 years ago.

Mrs. MACINNIS: If he has gone all this way in getting a monopoly built in this country, what would have been the result if he had used advertising?

Mr. VAUGHAN: That is a rhetorical question.

Mr. SINCLAIR: You had a second question.

Mrs. MACINNIS: That is a supplementary. Would anybody like to answer that one?

Mr. VAUGHAN: I think that was a rhetorical question.

Mrs. MACINNIS: It was not intended to be, but if you prefer to take it that way, that is fine.

Mr. SINCLAIR: And the second question?

Mrs. MACINNIS: What freedom of choice remains to the consumer if you have built these great near monopolies?

Mr. SINCLAIR: I can only say to you that in a given town the Loblaw store manager must gnash his teeth when he sees people flocking into A&P, Dominion, IGA and the others. It seems to me there is less of a choice left to the consumer. I am not an economist and cannot discuss the morality or otherwise of the complexity of the Weston empire.

Mrs. MACINNIS: In other words, you do not accept responsibility for helping to build these great chains?

Mr. SINCLAIR: No. As I said in answer to your first question, I do not see a way of relating advertising to the growth of the Weston empire.

Mr. J. M. MILNE: There is an inference here there is immorality in bigness. There is only an immorality in bigness if the large organization is doing something that is against the public interest. I would like to make one point, and that is that this country is probably the hardest country in the world in which to distribute; it is a long, narrow country with all the attendant distribution and sales problems. People like Weston have been enormously efficient in the distribution process—and, by the way, we do not represent Weston in any way, shape or form! I have travelled around the world, from one end to the other, and there is not a country in this world where the distribution of food is handled as efficiently and as well as in Canada. I have travelled behind the Iron Curtain and in front of it and there is not a place that I would rather be than this country, because there is nowhere I can buy food at a cheaper price, with a wider variety and with more assurance of what I am buying.

Co-Chairman Senator CROLL: Do you say that it is in the public interest that a man like Weston, through his various organizations, should control so large a portion of the food economy of this country?

Mr. John M. MILNE: No, I do not defend Weston from that standpoint at all, but Canada has an efficient food distribution system. "Bigness" can convey a cartel in itself but this is an area of investigation for this committee.

Mr. OLSON: Mr. Chairman, I want to pursue for a few moments a subject that was brought up a few minutes ago.

To start with, I would like to say I am one of those people who believe that good, effective advertising has in fact contributed substantially to raising our standard of living in Canada, for several reasons that have all been dealt with in the report. But what I am concerned about today, and in the context of this meeting, is whether or not advertising has in fact increased the cost of food —never mind about the other products your firms advertise—in relation to the value of that food in terms of the dollars spent for food. For example, in your counselling with or before your clients, do you encourage them to adopt standard sizes, for example, so that the housewife can in fact make a valid comparison in shopping?

Mr. VAUGHAN: You are asking your questions one at a time?

Mr. OLSON: Yes.

Mr. VAUGHAN: Most of the larger, more sophisticated advertisers have their own marketing departments that are very competent in studying such matters as you have cited. Oftentimes in this particular area the agencies are not consulted at all; it is a decision of the corporation itself because it is really not a function of advertising to make such a decision.

Mr. OLSON: But the reason I asked you this question is because in your brief you spend a lot of time and space talking about the choice of the consumer and the validity of her having this choice and also of this comparative shopping so she can see; and with all the complexities of various sizes and trying to make valid comparisons the suggestion has been made that the housewife would have

to take a sliderule and know how to use it if she is going to be able to compare a $2\frac{3}{4}$-ounce package with a $7\frac{3}{8}$-ounce package. You have dealt with it in your brief. In your counselling, do you encourage your client to put products on the market so there can be some kind of valid comparisons made, and made reasonably easily?

Mr. VAUGHAN: I think, Mr. Olson, we would certainly do so if we were asked, but as I pointed out, in this particular area agencies are seldom consulted. This whole matter of packaging is a very big one, and undoubtedly you will be going into it fully at a little later stage.

Mr. OLSON: Do the member firms of your institute take an active part in advising your clients respecting packaging, as to size, colour, format and so on?

Mr. REYNOLDS: No.

Mr. VAUGHAN: As Mr. Reynolds has said, no, we do not, except in one area—and I think you will recognize this. If a package is going to be advertised, for example, on television it is important that it be able to communicate. This is the only area, the communications area, we would have a hand in.

Mr. REYNOLDS: However, in the earlier part that was read into the record with regard to the setting up of a council, I think it is one of the component parts of the responsibility that would be embraced in a council, because you have had evidence before this committee about the differentiation of sizes and the comparing of ounces and grams. I am in complete sympathy with the problem the homemaker has in trying to differentiate between them, but there are mechanical problems with regards to the standardization of sizes which require a great deal of depth of study. If you had a complete standardization of sizes, let us say, in the cereal field, in the derivatives of cereals, it would amaze you what it would look like within a store and the inefficiency with which it would be handled for distribution. No, we do not claim to be authoritative in this area, but we are vitally concerned that some order comes out of what seems to be chaos at the present time.

Mr. OLSON: Perhaps I misunderstood the purpose of using the services of an advertising agency. Please correct me if I am wrong. A firm which wants to sell a product, or promote a product, turns over the whole promotion and advertising of its product to a firm which advises it how to do it, and I assume that this includes the package. Does this not include the package?

Mr. VAUGHAN: If this were the case then a great many advertising agencies would be a great deal larger than they are. This is not the case, except for very small companies which have not their own internal facilities.

Co-Chairman Mr. BASFORD: It is an awfully long time since I read *Hidden Persuaders*, but there are in it two long chapters about the work being done by two of your members, namely, Batten, Barton, Durstine & Osborn, Inc. and J. Walter Thompson Company Limited, on package design.

Mr. OLSON: I am having considerable difficulty in trying to understand this apparent denial that advertising firms are not keenly interested, and influential, in the packages.

Mr. REYNOLDS: I hasten to answer the charge of denial of interest. There is no denial of interest, as Mr. Basford has stated.

Mr. OLSON: There is a denial of influence. Let me put it in that way.

Mr. REYNOLDS: That is a different thing. Let me answer both points. There is a distinction here. Mr. Basford has referred to *Hidden Persuaders*, which makes for very interesting reading, but it has not yet been established in this total context as an authoritative source of information on how the advertising agency business functions, in fact.

Yes, we are interested in packaging, but packaging is a highly specialized type of business. Up until a generation ago the entrepreneur started a business and conducted the business in accordance with his own judgment. The tools of measurement by which the audience and the audience reaction is more accurately defined year by year has brought a degree of specialization into the full complex picture of marketing, and the advertising is only one phase of it. There are also product ingredient, product packaging as to size, product colour, and product distribution. Look at all the technological changes that have taken place in our lifetime in regard to the advent of transportation, and what it has done to move products. Look at what fast freezing has done to food products. The housewife now goes into a supermarket and buys by free selection from the shelves. The supermarkets keep the clerks away from the shelves because the housewife knows more about the product than the clerks who put it on the shelves.

It is in this total context that the advertising agency is concerned, and about which it must be knowledgeable, but packaging is a specialized field in which other firms have made detailed studies, and they are retained by the manufacturers on a consultation basis. Consequently, when you had the detergent people, for example, here you found them flanked by highly sophisticated people with regard to the brand marketing concept. The decisions you are talking about are made at the brand marketing organization level of the manufacturer, and the advertising agency is only one component consultant to that company in its decision.

Mr. OLSON: Well, Mr. Chairman, this is all very interesting, but it still does not answer the question which was really a very simple one. I asked in the first instance a question as whether or not the member firms of your institute do, in fact, counsel their clients in trying to find some ways and means of packaging that will give the housewife a better opportunity of making an intelligent choice. If there is no answer to it, or if you do not do it, then that is fine. That is all I wanted to know.

Mr. VAUGHAN: Sir, I have said that we do to some extent, but it is limited.

Mr. OLSON: Do any of your firms have advertising accounts for products which have cents off printed on the labels, or the word "free" in large letters on the labels, and so on?

Mr. VAUGHAN: I think most of our firms would have clients in that category.

Mr. OLSON: What does "cents off" mean? Just to make it a little more clear, it is cents off what?

Mr. VAUGHAN: I would like very much to be able to answer this question for you, Mr. Olson. We have said, because we understood it was within your terms of reference, that we prefer to talk about advertising per se as a communications device.

Mr. OLSON: Is not one of the most important ingredients in the advertising context "cents off" and "free"?

Mr. VAUGHAN: In our estimation that is a merchandising technique, and we are prepared to advertise that if our clients decide to take this particular route of merchandising.

Mr. OLSON: If you do not understand what it means then how do you square that with your Code of Ethics where you say on page 5:

> In particular the following should be avoided:
> (c) misleading claims, descriptions, or illustrations...

Mr. SINCLAIR: Sir, I do not think Mr. Vaughan, in his answer, said to you that he did not understand what "cents off" means.

Mr. OLSON: I asked him specifically what it means, and he did not answer. I think he, to use a term that is used in parliament, waffled on it.

Mr. SINCLAIR: I am not a waffler. In my opinion "cents off" means that a product is being offered for a time at a lower price than its regular shelf price.

Mr. OLSON: Then, my next question is: What is the shelf price? There is an introductory offer, for example, in respect to which there is not an established regular price. What does "cents off" means when it is applied to that product?

Mr. SINCLAIR: I do not know how we can discuss this without getting specific. I do not know. I am not the president of Procter and Gamble or Lever Brothers, or any of the others who have testified before you. I am sure they have gone into this thoroughly with you. I do not know how to amplify the answer I have given which is that my understanding of "cents off" is that a product is being offered at a lower price than its ordinary price.

Mr. OLSON: When you take on this type of a package do you satisfy yourself firstly that there is a regular price that some cents can be taken off?

Mr. SINCLAIR: Oh, yes.

Mr. OLSON: You do?

Mr. SINCLAIR: Yes. We are generally aware of the retail shelf position of our clients' products. We often go into supermarkets to see how they are doing, and at what price they are, and what price the competitors' products are.

Mr. OLSON: You are talking about the prices of the competitors' products, but we are talking about the regular price of this specific product, are we not?

Mr. SINCLAIR: Yes.

Mr. OLSON: When you put on a package of detergent "40 cents off" you are suggesting that the regular price would be 40 cents more than what that product is at that time selling for?

Mr. SINCLAIR: That is exactly what I am suggesting.

Mr. OLSON: Well, I am not any further ahead.

Mr. SINCLAIR: At least, I have not waffled, sir.

Mr. OLSON: I think you are waffling a little bit in trying to give me a definitive answer in respect to what your Code of Ethics says you avoid, namely, misleading claims, descriptions, or illustrations.

Mr. SINCLAIR: We do indeed, sir, and I think the only way for us to discuss misleading claims is in specific terms. I would like to know of any accusations of misleading claims put out by members of this organization.

Mr. OLSON: I did not bring in a package, but I think that you people in this business know that detergents and instant coffees, and so on, have "cents off" on the packages in amounts of as much as 25 per cent of what the price for that product is at that time. It seems to me that in those cases the regular price would be some 25 or 30 per cent above the price that is asked.

Mr. SINCLAIR: That is exactly what I would assume.

Mr. OLSON: Well, you make the statement at page 6, paragraph 12, of your brief, in trying to differentiate between promotion and advertising:

—but they are classed as promotion, not advertising.

What is the difference between promotion and advertising? I do not understand that.

Mr. SINCLAIR: If you go to the top of the page you will see that we are saying that the definition of advertising is the purchase of mass communications.

All three of those terms are essential. Therefore, publicity activities are not advertising, and in general our people are not concerned with publicity activities. It is mass communications. If I write you a letter offering to sell you my motor car I am not advertising, but if I Xerox a few hundred copies of that letter and send them out to many people then that is mass communication. Putting a premium on a box of detergent is not advertising. Offering trading stamps is not advertising. Cents off deals are not advertising.

Mr. OLSON: That is a pretty narrow interpretation of advertising.

Mr. SINCLAIR: Our business is communications, sir.

Senator MCDONALD: Those are the things that you refer to as promotion?

Mr. SINCLAIR: That is right. They are competitors for our dollar. We would rather see them abandoned, in our own interest.

Co-Chairman Senator CROLL: If, as you said to Mr. Olson, cents off deals are not advertising but promotion, and you would much rather see them abandoned, I would suggest that you want the cents off deals abandoned?

Mr. SINCLAIR: We would be happier, but we recognize the facts of life.

Co-Chairman Senator CROLL: If you are happy then we will try to keep you happy. Senator Inman, I think you had a question.

Senator INMAN: Mr Chairman, I realize that in our way of life today advertising is a necessary commodity. First of all, I want to congratulate the witnesses on their excellent presentation. Last week I addressed a Canadian Consumers' Association group, and one question they kept asking was, what per cent does advertising add to the cost of the article advertised? Of course, I did not know, but I said I would try to have the answer for a big meeting at Easter.

Mr. VAUGHAN: We cannot give you, Senator Inman, any definitive answer to that, other than to say that it varies by product. Certain products have a greater ingredient for advertising than others. If you have a specific product in mind we would be glad to give you what figures we have; but it stands to reason that some products take more advertising to promote them than others, and therefore the ratio of advertising to the cost of such products would vary.

Senator INMAN: There were many questions asked, but this one seemed to be the question uppermost. I wondered if you could give it an average percentage.

Mr. VAUGHAN: Could we give a few typical examples?

Mr. J. N. MILNE: Senator Inman, in 1954 the Dominion Bureau of Statistics issued a reference paper called "Advertising Expenditures in Canada." To my knowledge, this was the one and only time this was ever done in Canada. There are figures in the United States, but they are not relevant here. On page 13 of that reference paper, Tables 8 and 9, the advertising ratios in manufacturing for that year are shown. Whether or not they relate to 1966 is another matter. At that point in time they list for all the various products in Canada the ratio of advertising to sales. If you have an item in mind, I will try to give you a figure.

Co-Chairman Senator CROLL: But it could not be meaningful in 1966, twelve years later.

Mr. J. N. MILNE: Then I submit, Mr. Chairman, that it is time that D.B.S. did it again.

Co-Chairman Senator CROLL: It is meaningless at the moment. Any other questions Senator Inman?

Mr. REYNOLDS: May I say that for 1965 the average figure is 3.6 in the United States, 2.8 in Canada and 2.5 in the United Kingdom. That is the over all cost of advertising against the gross national product.

Mr. JOYAL: Professor Firestone's brief shows that for 1965 the total as a percentage of gross national product attributed to advertising in Canada was 1.4.

Mr. J. N. MILNE: It has been falling for the last few years.

Mr. MCCUTCHEON: This is just a supplementary, Mr. Chairman. Do any of you gentlemen know the total food bill in Canada for a given year, say for this past year, or the previous year?

Mr. VAUGHAN: No, we do not.

Mr. MCCUTCHEON: Yet you know that it costs $10 per capita for advertising.

Mr. J. N. MILNE: It is $40 per person, which results from $800 million worth of advertising, divided by 20,000,000 people.

Senator INMAN: I have one supplementary. If it costs $10 per person per year for advertising, what would you consider that to be in percentage?

Mr. VAUGHAN: I did not get the question, Senator Inman.

Senator INMAN: You said that the advertising cost was $10 per year. Then, how much food would they eat?

Mr. J. N. MILNE: I cannot answer that question. It should be borne in mind, of course, that a great many foodstuffs are not advertised.

Co-Chairman Senator CROLL: Mr. Smith?

Mr. SMITH: I was trying to relate this $10 question. Could the $40 or the $10 per person per year be related in percentage terms, for Senator Inman, to the amount of food the average Canadian consumes per year?

Mr. VAUGHAN: I guess a statistician could do that; we have not done that.

Senator MCDONALD: When you say $10 for food, does that, for instance, include detergent?

Mr. J. N. MILNE: No; food only.

Co-Chairman Senator CROLL: Mr. McLelland?

Mr. MCLELLAND: I wonder if you have the figures for the United States per person for food for advertising? You say it is $10 for Canada.

Mr. VAUGHAN: The over all expenditure in the United States is $83 per person.

Mr. J. N. MILNE: As opposed to our $40.

Co-Chairman Senator CROLL: Mr. Lefebvre.

Mr. LEFEBVRE: You consider that in Canada it is $10 per person. This does not include promotions, and all this cents off. It could be many, many times this amount?

Mr. J. N. MILNE: This is what D.B.S. considers advertising.

Mr. LEFEBVRE: It is what D.B.S. considers advertising; and do you also consider it to be advertising?

Mr. J. N. MILNE: So far as I know, our definitions are comparable.

Mr. REYNOLDS: When you compare the United States with Canada, you must remember that you are comparing a unilingual population with one bilingual in part.

Mr. LEFEBVRE: Does it cost that much more to print in two different languages?

Mr. REYNOLDS: It is much more relatively. You would also have media such as television, radio, and newspapers, in both languages, so you have duplicated costs.

Mr. LEFEBVRE: In other words, if a company wishes to advertise goods, would they deal with one company for both French and English advertising, or with a French company for the French advertising, and an English company for the English company advertising?

Mr. REYNOLDS: Any competent advertising agency must be equally competent in French and English, and it must not be just a translation operation, they have to think in one language, as well as think in the other.

Mr. VAUGHAN: The national agencies are all bilingual.

Mr. LEFEBVRE: Is that why it costs so much?

Mr. VAUGHAN: It is a completely different staff. We are not the largest agency by any means, but speaking personally, we have in our Montreal office, in particular, and competitors have in some of their offices, too, specialists, French speaking specialists in marketing and various forms of creativity as well as the other phases of advertising; and this applies to all other agencies, too.

Mr. LEFEBVRE: But would it cost you more per issue to advertise in Montreal than in the Toronto *Star*?

Mr. VAUGHAN: Costs more in the Toronto *Star*?

Mr. LEFEBVRE: I mean, it would not cost any more?

Mr. VAUGHAN: If I understand your question correctly, it would not cost any more if you were going to advertise in *La Presse* only, but if you were to advertise in both papers the message would have to be done in both languages which doubles the production costs, so to speak.

Mr. LEFEBVRE: But if you want to advertise in the Montreal and Toronto markets, would it cost more in *La Presse* than in the Toronto *Star* on a per issue basis?

Mr. REYNOLDS: Take the Toronto *Star* and the Montreal *Star*. If you advertise in the Montreal *Star* and the Toronto *Star* you make one ad in the English language in both cities. If you are using the Toronto *Star* and *La Presse* you have to create two separate ones and go to two preparatory costs, because one is English and the other French.

Mr. LEFEBVRE: What would be the cost in the newspaper?

Mr. REYNOLDS: The cost of the space?

Mr. LEFEBVRE: Yes.

Mr. REYNOLDS: It is equated to the circulation.

Mr. LEFEBVRE: So it would not cost any more?

Mr. REYNOLDS: After the year 1941 the Audit Bureau of Circulations formed a tripartite of advertisers, agencies and publishers, and created a system whereby an independent auditing bureau would audit circulation against which the cost of that space would be assessed. When you say would it cost more or would it cost less, it would cost in relation to the circulation. If the line rate in one is $3 and in the other $2, presumably one has 50 per cent more circulation than the other.

Mr. LEFEBVRE: According to the circulation—it would not cost more in one than in the other.

Mr. VAUGHAN: It would be about that.

Co-Chairman Mr. BASFORD: On a question of privilege, I notice that one of your members is Needham, Prentice and Basford. I want to assure you that I have no connection.

In paragraph 110 you tell about a committee that you have. I wonder when that was set up.

Mr. VAUGHAN: As we mentioned in our brief, we have had in our existence for some time a Canadian Advertising Research Foundation. This special committee to which you refer admittedly has been set up in the last while. Mr. J. N. Milne is the chairman of it and we consider him to be the most competent person in our business to handle that particular work.

Co-Chairman Mr. BASFORD: What is "just in a little while"?

Mr. VAUGHAN: Within the last six weeks.

Co-Chairman Senator CROLL: Since we started to operate?

Mr. VAUGHAN: That is right.

Co-Chairman Mr. BASFORD: Was the committee set up for the purposes of preparing the brief?

Mr. VAUGHAN: No, it definitely was not.

Co-Chairman Mr. BASFORD: It seems to me odd that if you were concerned about these things, you have only set up this committee six weeks ago.

Mr. VAUGHAN: Mr. Basford, I think this illustrates one of the very fine things that are coming out of this committee. I think the work that this committee is doing is forcing business, including ourselves, to take a new look at ourselves in very many ways, and this is a healthy thing.

We have been conducting what we felt was the research that was essential to the operation of our business and most agencies, in addition to doing research for their clients, also conduct research on their own behalf, that they feel is a professional contribution to the advancement of the business. But it is, as you say, Mr. Chairman, since this committee has become active—I think it is performing a very useful function in forcing all of us to take a closer look.

Co-Chairman Mr. BASFORD: The committee has not reported yet?

Mr. VAUGHAN: No.

Co-Chairman Mr. BASFORD: I wonder how many meetings it has had?

Mr. VAUGHAN: It is really just in the process of formation, because we point out in Dr. Firestone's brief that there are many many areas that really should be researched and that these are not entirely the responsibility of the advertising agency business. We feel that in any event, the advertising agency, the advertisers, and media, and possibly government, should be taking an interest in these things.

Co-Chairman Mr. BASFORD: In line with the Code of Ethics, might it not have been more correct to say that the I.C.A. is in the process of establishing a committee, rather than has a committee charged with this?

Mr. VAUGHAN: That might have been more correct.

Co-Chairman Mr. BASFORD: You say in paragraph 117 that consumer education is a vital matter that deserves encouragement from all sectors of the community. The Consumer's Association of Canada has been operating for a good many years in doing some very valuable work. I was wondering whether the I.C.A. had ever contributed to it, to support the work it has been doing?

Mr. VAUGHAN: I do not know what you mean by contributing. We feel we have contributed whenever we have been asked, and we have been asked on

occasion to speak to the Consumers' Association to discuss advertising problems. Whenever those invitations have been forthcoming, we have accepted them.

We agree with you that the Consumers' Association of Canada performs a very real function. As a matter of fact, if I may speak personally, during the last war I had the privilege of being on the Wartime Prices and Trade Board, and as you know the consumers branch of that particular wartime body did have a very positive contribution to make in reflecting how various actions, either proposed or definite, did affect the consumer.

Co-Chairman Mr. BASFORD: I was talking of contributions in the sense that it has most meaning to me, and I mean by a cheque.

Co-Chairman Senator CROLL: He has the political angle.

Mr. VAUGHAN: We have not been asked to support the Consumers' Association of Canada financially. We feel, however, that if we were asked it would certainly be given the utmost consideration. But we can make a bigger contribution to the Consumers' Association of Canada than a financial contribution. Like every other business, agencies are asked to contribute to various special public service causes and I think the Consumers' Association could probably come in this general purpose category. We feel that, because of our knowledge of communications, possibly our greatest contribution to associations, such as the Consumers' Association of Canada could be in assisting them in their communications. For instance, they may wish to enlarge their membership and perhaps we could help them in something of a recruiting character.

Co-Chairman Mr. BASFORD: You say in paragraph 116:

> Our Institute believes further that the time has come when Canadians should not only support the principle of consumer education, but also take practical action.

It seems to me that you have been a long time in coming to this conclusion.

Mr. VAUGHAN: That is a comment, sir.

Co-Chairman Mr. BASFORD: It is a comment. It does not seem to you a long time?

Mr. VAUGHAN: No, it does not, because we have been working with these people whenever we have been asked. These are just one of the groups with which we have been working.

Co-Chairman Mr. BASFORD: The 1959 Royal Commission on Price Spreads, the Stewart Commission, said, on page 57:

> ...we recommend that the Association of Canadian Advertisers, in co-operation with the Food Industry, be requested to draw up and administer a code of ethics designed to guide food advertisers generally and particularly to reduce misleading advertising.

Could I have a report on the action that has been taken as a result of that recommendation?

Mr. VAUGHAN: We are not equipped to give you a report since we are an entirely separate and independent organization from the Association of Canadian Advertisers, which represents advertisers. We represent advertising agencies.

Co-Chairman Mr. BASFORD: You are not able to tell, within the trade, what has been going on?

Mr. VAUGHAN: I cannot say, because I was not involved, whether or not this code in the back of our book is one of the results of that particular thing. It could very well be, but I am not aware of any specific answer to that question.

Co-Chairman Mr. BASFORD: There is no information on your brief that I noticed in any way on media rates. What are your views on media rates?

Mr. VAUGHAN: Our views on media rates—we have all the data here— we would be prepared to give you the media rates.

Co-Chairman Mr. BASFORD: Are they too high, too low, or fair?

Mr. VAUGHAN: It is not really a serious question, is it? It is our job as advertising agencies naturally to make all purchases that we make on behalf of our clients, at the best possible prices. The prices we pay for media are outlined in their rate cards and are established.

Co-Chairman Mr. BASFORD: But the rates you pay are a very substantial part of the advertising budget, are they not?

Mr. VAUGHAN: Oh yes, the majority of them.

Co-Chairman Mr. BASFORD: It is often referred to in the trade, in my experience of the trade, that a broadcasting licence is often referred to as a "licence to steal," which undoubtedly has reference to their rates.

Co-Chairman Senator CROLL: You must be thinking of the Toronto stock exchange.

Mr. REYNOLDS: This is a very serious question. At what time do you propose to adjourn?

Co-Chairman Senator CROLL: We will keep on going.

Mr. REYNOLDS: Mr. Basford, with all due respect, "television licences being licences to steal" is probably an envious comment by the person who did not get one.

Co-Chairman Senator CROLL: That is Lord Thompson's statement, not Mr. Basford's. Lord Thompson said it very broadly, and this is being said jocularly.

Mr. REYNOLDS: Relative to the privilege given to him to place a station halfway between Edinburgh and Glasgow. In so far as Canadian rates are concerned, they have to be extremely competitive. Our responsibility to our clients is to buy advertising space, regardless of the media used, in accordance with the best ability and efficiency. It is a case of deciding what the medium should be. If you have a product which can best be sold by means of a demonstration, then demonstration in television is probably the most useful. If you have a long and detailed story with regard to the benefits of a particular type of life insurance for a growing family, perhaps you have to use newspapers and magazines where you can tell the story in full.

Co-Chairman Mr. BASFORD: That is not what I am asking.

Mr. MCCUTCHEON: It seems to me that Lord Thompson's statement about "licences to steal" was a statement to the effect that it was a "licence to print money."

Co-Chairman Senator CROLL: I will take the correction.

Co-Chairman Mr. BASFORD: The question I was asking was whether the media rates are too high or too low.

Mr. REYNOLDS: I am giving the answer.

Co-Chairman Mr. BASFORD: You were giving an answer as to how to select each media you use and whether it is going to do the job.

Mr. REYNOLDS: The answer I am giving, and I am sure that you are listening, is that the use of the media is in accordance with the dollars invested by the advertiser which will earn him a return against them. As to the question, are they too high or too low, if a certain classification of media represents inefficiency, because they are high relative to the objects they are after, he will not use that media. You make a broad generalization: are they too high? Give me a reference as to what "high" means and then I will give you an answer.

Co-Chairman Mr. BASFORD: You have no opinion on it, then.

Mr. REYNOLDS: It is not a matter of the absence of opinion, but give me a hypothetical question.

Co-Chairman Mr. BASFORD: All right. Are the rates you pay in the *Globe and Mail* too high or too low?

Mr. REYNOLDS: In which classification of advertising in the *Globe and Mail*?

Co-Chairman Mr. BASFORD: In display advertising.

Mr. REYNOLDS: National or local?

Co-Chairman Mr. BASFORD: National.

Mr. REYNOLDS: I think the rate is reasonable.

Co-Chairman Mr. BASFORD: I see. What is reasonable?

Mr. REYNOLDS: In my judgment, it is the value in return for the space, because when we buy space we only buy the opportunity to speak to people. It is only efficient, if the message we put in there to that audience is well done. The buying of the audience is what you are talking about, and I think the rates the *Globe and Mail* charges on the national line rate are better on a quantity basis, and for a reasonable purchase of audience it is up to me to determine what goes in there and how efficient it is when I speak to the audience.

Co-Chairman Mr. BASFORD: You have a book containing all the rates for all media. Are there none in that book that are too high?

Mr. VAUGHAN: I do not think we can give you a definitive answer on that.

Mr. J. N. MILNE: By the standards of some people there would be rates in here that would be too high; by other standards they would be too low. It depends on which people you are referring to and the products involved.

Senator THORVALDSON: Well, you are in a competitive business.

Mr. VAUGHAN: We certainly are.

Co-Chairman Mr. BASFORD: I will not pursue the matter. I am a little disappointed that you have not more opinion on what is the largest ingredient in the cost of advertising.

Mr. REYNOLDS: You are charging me with having no opinion. With due respect—

Co-Chairman Senator CROLL: He is not charging you. And he did not say "no opinion". He said that it was unfortunate that you did not have a better opinion. You gave an opinion; he thinks you should have a better opinion.

Mr. REYNOLDS: May I ask Mr. Basford what opinion he wants and I will tell him what my answer is.

Co-Chairman Mr. BASFORD: I am not here to answer questions. I thought you could give us the views of your association on what is, I think, a very vital matter of discussion in Canada, namely whether by the granting of other exclusive broadcasting licences the rates have not been forced up to an artificial level.

Mr. REYNOLDS: I am sure that the powers granting the licence, the authorities, have to take into consideration the mechanical limitations of broadcasting and the revenue that can be earned in order to sustain a station, or multiple stations, in a market. It is not for us to sit in judgment on whether a third station added to a market would increase the competitive nature of that market and thereby reduce the price to the advertiser, for, if in doing so it reduced the total dollars available by fractioning it into three channels, it would be a disservice to the Canadian public.

Mr. ALLMAND: May I ask a supplementary question, please? Are the rates in American television stations which are near the border of Canada generally lower than Canadian rates, and do you often, let us say, if you were in Toronto, place ads in Buffalo TV stations for Toronto, or things of that sort?

Mr. REYNOLDS: For the record, I would like to refer to your question as "you often place in the United States". Now, you are directing a question to me. Therefore, we are talking about things in general. Now, for instance, KVOS in Bellingham exists for the purpose of advertising to Mrs. MacInnis' constituents. Is this sinful or not?

Mr. ALLMAND: I am just asking if the rates are generally lower in the United States than in the Canadian stations servicing the same communities.

Mr. REYNOLDS: Frequently they are higher.

Senator THORVALDSON: Mr. Chairman, I think most of the areas that I would have asked questions about have been covered. I just want to say that I am one of the millions of Canadians who believe in advertising. But, at the same time, I think an awful lot of it is terrible tripe and could be improved. However, I was going to follow up on Mr. Olson's line of questions, because he was talking to you about the cents off business. I could not get a satisfactory answer to my views in regard to that, so may I pursue it just for a moment, Mr. Chairman? I, of course, think the cents off type of advertising is the worst type of advertising in Canada. I will not call it reprehensible; perhaps even the word unethical is too strong a word to use for it, but I certainly would like to know if the advertising agencies control this type of advertising, which, of course, takes place mainly in chain stores in the form of packaging, where a band is put on the package indicating, for example, two cents off or 30 cents off. Who controls and who has the most say on that type of advertising? Is it the advertising agencies or is it the stores?

Mr. VAUGHAN: Senator Thorvaldson, definitely, the advertising agencies do not control that particular area. This is a matter for the manufacturer and is usually laid down, as Mr. Reynolds pointed out, by the brand management in the particular company responsible for the product involved.

Senator THORVALDSON: I refer to page 19 of your brief, clause 72, where there is reference to the Canadian Code of Advertising Standards.

Mr. VAUGHAN: Yes, sir.

Senator THORVALDSON: Now, it may be that I have a megalomania, personally, in regard to this type of advertising, but I do not think so. I am quite convinced that most Canadians do not like that type of advertising. Perhaps we have cleared that question up, then, as far as you are concerned.

Mr. VAUGHAN: Very good, sir.

Mr. O'KEEFE: May I just ask a short supplementary on this question of cents off? In connection with the cents off business, I had a letter the other day charging that the manufacturers, when they were about to drop a price, they often put a 10 cents off on the preceding shipment. Have you any comment on the accuracy of that charge?

Mr. VAUGHAN: I would have to have a specific instance so that I would be able to comment on it. I have no knowledge of that.

Mr. O'KEEFE: You have no knowledge of this ever happening?

Mr. VAUGHAN: I have no knowledge of such ever happening.

Mr. O'KEEFE: You have no knowledge of them marking 10 cents off and then the next shipment being lower in price itself? In any event, you know what I mean. You have 10 cents off on a 24-case item so that it is $2.40 off per case. And then on the next shipment the case itself, without any cents off, is $2.40 a case cheaper.

Mr. VAUGHAN: I do not know about that particular instance or of any other.

Mr. O'KEEFE: Thank you.

Senator THORVALDSON: On the same point, will you agree that this type of advertising can lend itself to terrific abuses? Indeed, it can lend itself to abuses which I have observed over the years. How do I know, for example, if the price is right or wrong? Would you agree that it does lend itself to abuses that might be correctible?

Mr. VAUGHAN: Sir, as we say in our brief, we do not consider those particular trade practices to be advertising. We consider them to be merchandising practices or promotional practices.

Senator THORVALDSON: I think that helps to answer my question. Thank you very much. Now, the only other thing I wanted to ask about, Mr. Chairman, was in regard to some comparisons you had in regard to advertising costs in Canada and the United States. Also there was some reference to Great Britain, I believe. Would you care to offer an opinion as to whether, by and large, modern countries in Europe, such as Germany, France and Belgium, have approximately the same standards in regard to advertising as we have? I am referring to the countries which have developed so quickly since the war. Are their methods and practices in advertising and so on approximately the same as in the Americas?

Mr. VAUGHAN: May I ask Mr. Sinclair to comment on this, in that his company operates internationally and he is probably in a better position to contribute an answer?

Mr. SINCLAIR: In terms of volume, advertising does vary from country to country in Europe. Certainly, in the more well developed and prosperous countries advertising levels are as high as and sometimes higher than in Canada.

Certainly, the U.K. appears, from all the information we can get, to be higher than Canada is. The practice of advertising in Europe is becoming remarkably similar to the practice in North America. Advertising and affluence go together. I am not putting a simple cause and effect relationship forward. It is far more complex than that. However, where you get a well developed consumer economy, you get a great deal of advertising. In fact, there is an increasing flow of consumer goods in Russia and other eastern countries. As an example, the GUM Department Store has an advertising staff of 60.

Senator THORVALDSON: What country is that?

Mr. SINCLAIR: Russia. In western Europe, advertising levels are high and practices are becoming startlingly similar to those in North America.

Senator THORVALDSON: I would like to ask a question on just one other area, Mr. Chairman, if I may? We are here, of course, largely trying to discover why food prices have inflated as much as they have, and you gave us the figure per capita for advertising over the whole area of the Canadian economy. Now, there was some suggestion that the per capita for food was $10 in Canada. Is that a guess or did you bring with you some working figures on that?

Mr. SINCLAIR: That is, first of all, our best estimate. On the total of advertising there is no question. It is $40 per capita. But breaking out food is a little difficult, because, for example, there are companies such as Lever Brothers which are in both food and detergents and the likes. It is very hard to say how much of their advertising is food advertising. By taking the total of known advertising expenditures devoted exclusively to food, and then making some estimate, and it has to be an estimate, of other advertisers' which may be food, we believe it is about 25 per cent of the total which runs to the $10 per head figure.

Senator McDONALD: I had intended asking two questions, but one has been asked by Senator Thorvaldson. So I will come back to the rates for television advertising. Are they set in the same way as the rates for newspapers? That is to say, if you have a newspaper with a circulation of one million the advertising rates will be much more than they would be if there was a circulation of 750,000. Is it the same with the television stations? If you get a viewing audience of say, 75,000, in the evening is the rate higher, and if the audience is less, is the rate lower? And secondly are the rates for television stations in Canada and the United States comparable?

Mr. REYNOLDS: The broadcaster publishes his rate card upon which he sets his rate according to the audience based upon the measurement of the audience he has at various times. Therefore you do not pay according to the audience, you pay against a rate card and the rate card is based upon the measurement of the audience. With regard to the second part of your question and I cannot give an authoritative answer on this or quote a source, but it is my general opinion from examining rates on both sides against audiences that the rates in the United States are in the main higher than in Canada, with one exception and that is that there are at certain times in the United States and in certain geographical areas, what are called block-buying concepts, and here you have the trade press carrying stories on this from time to time, and it would be difficult to give a categorical answer to the question relative to that particular segment of the operation. It is not prevalent, but it does exist.

Co-Chairman Senator CROLL: Senator Carter.

Senator CARTER: I had three questions, but in the interests of brevity and because of the lack of time I shall limit it to two. First, I would like to ask Mr. Sinclair to clarify a reply he made to Mr. O'Keefe this morning. He said his code of ethics prohibits exploitation of human misery, but apart from playing on superstitions and fears, you do not prohibit exploitation of human weakness. What Mr. Sinclair said was that some parents disciplined their children and some parents do not, but it is the responsibility of the parents to do so and if they don't do so they are fair game and it is quite all right for advertising people to come in and exploit their weakness. If I am wrong in that I would like to have it cleared up.

Mr. SINCLAIR: What I said, or what I set out to say, is that we are living in an age preoccupied with youth in which parents seem to have abdicated the role of correcting and disciplining the young. They are putting disposable incomes into the hands of the young. Indirectly the case made by Mr. O'Keefe was with regard to breakfast cereals, but directly disposable income is in the hands of the children. Now I am not prepared to say that the child is better off if he chooses cereal A as opposed to cereal B. But I am saying it is the decision of the parents to allow the child to make a decision. Inevitably advertisers will appeal to the people making the decision.

Senator CARTER: In fact you don't have a code here about exploiting human weaknesses. Is that left out deliberately?

Mr. SINCLAIR: But we do not exploit human weaknesses, and I would like to see a concrete example to the contrary. I do not agree that it is exploiting human weaknesses to invite a child to choose cereal A rather than cereal B.

Senator CARTER: You know that in many cases a child chooses one over the other not because it is better, but because there is a particular gimmick added.

Mr. SINCLAIR: Yes, but could you adduce the corollary that the child is thereby at a loss?

Senator CARTER: Yes, because the thinking seems to be that because the parents do not discipline the child you can take advantage of it.

Mr. SINCLAIR: I say that if the child has disposable income it is reasonable to appeal to it because it has that disposable income.

Senator CARTER: Coming now to my second question which deals with public reaction and whether you test it. What I have in mind is television advertising which I find somewhat nauseating, not because it is indecent or morally offensive, but because it insults my intelligence.

Senator MCDONALD: What I refer to as tripe.

Senator CARTER: One example is where you see a woman rocketing out of some place and through a kitchen and, as I say, she is rocket propelled, or something like that; at any rate she appears to be propelled through the air. Another shows a professor passing judgment on a detergent, and it ends up with the professor looking quite silly. I find them nauseating because they insult my intelligence and that of any normal person. I wonder if you do anything to test public reaction to that type of advertising?

Mr. REYNOLDS: May I deal with that? I cannot let this go any further. We have heard complaints this morning with regard to encouraging people to live beyond their means and so on. I would like to deal with this in three parts. If advertising is charged with persuading people to live beyond their means, so does marriage. If advertising is charged with being long winded, so is the House of Commons. If advertising talks to many, but only a few people listen, the same thing applies to the church. But those are all institutions which have lived for a long time.

Senator CARTER: In other words you are saying that two wrongs make a right.

Co-Chairman Senator CROLL: You will notice he said the House of Commons.

Senator THORVALDSON: Thanks for not including the Senate.

Co-Chairman Senator CROLL: He is buttering up the chairman.

Mr. SINCLAIR: I would like to add a supplementary. It is a matter of concern to all of us, just as all vulgarity is a matter of concern to us. Nevertheless it is there. I often read stories in the newspapers that I wish were not there. I see some books on newsstands that I wish were not there. It so happens that the newspaper with the largest circulation in the world is the *News of the World* in London, and this deals mainly with vulgarity. But it is not the function of advertising to manipulate people's taste. The situation is that the client entrusts to our advice the disposition of a budget which has the function to sell goods. We set out to sell these goods and to achieve this we have to deal with people as they exist. We cannot direct it to the people as we wish they were, but to the people who really are out there. These are the people who read the pocketbooks you see on the newsstands. That is not to say that we should appeal in vulgar terms, and we do not set out to do that. The problem is that there is not just one level of taste in Canada. If advertising were not mass communication, and if I could address an advertising message specifically to you, senator, I know I would never insult you.

The problem of advertising is that it is mass communication and inevitably some people will be offended but that will always be a small minority otherwise advertising will not survive. If advertising offends a significant segment of the people, sales will not result and the harm done would be felt by the advertiser because it will have a very long effect. People have long memories, and if they are insulted or offended they will punish the advertiser by removing their business. There is an immediate discipline on vulgar advertising. But it cannot protect individuals or a minority with different tastes from the norm. Also I

want to repeat that I am not saying there is not vulgar advertising. There is far less than there was, and we in our organization are taking steps to see it is less yet.

Senator CARTER: I am glad to hear that. I would not call it "vulgar", and I do not think what Mr. Sinclair has said is a very great compliment to the vast majority of people.

Mr. ALLMAND: Mr. Vaughan, at page 9 you state that one of the benefits of advertising is a free and democratic press. Some people have said the very opposite. They say the fact that newspapers are mainly financed by businesses advertising products affects the freedom of the press, because if they say things these advertisers do not like their finances would be withdrawn. Have you ever had examples where advertisers would ask you not to place your ads in certain newspapers or with certain radio stations, because those radio stations or those newspapers or those magazines publish editorials against their philosophy, their way of life?

Mr. VAUGHAN: I have never had any examples of that character, and I do not think I will. And for this reason, that the advertiser is buying audience, so to speak, and the advertiser may not agree with the editorial policy of a paper any more than you might agree with the editorial policy of the CBC. He is buying audience, and if that particular medium will deliver the audience that he wants, he is prepared to buy it. The very worst thing that could happen, as we point out in our brief, is for any advertiser to try to influence the press.

Mr. ALLMAND: So, you would disagree with the statement made by some people that advertisers actually have a lot of control of the editorial policy of any medium?

Mr. VAUGHAN: Definitely, I disagree.

Co-Chairman Senator CROLL: Mr. Reynolds wants to say something now.

Mr. REYNOLDS: On behalf of my associates—and the responsibility primarily is that of Mr. Vaughan to conclude our presentation—I want to say this, that although the terms of reference of this committee deal with the matter of public welfare relative to credit and price, this is the first time an organized group has had the privilege of appearing before you who are engaged in the arts of persuasion. It is our responsibility to be knowledgeable in the ways in which persuasion can influence people.

We have built the second highest standard of living in the world in Canada, and the highest in North America, and we sincerely submit this has been made possible because a technological achievement has been married to persuasion in order to broaden the standard of living and raise it to such a high level. But we measure our standard of living by degrees of comfort and degrees of convenience. We submit there is no sin in creating comfort; there is nothing wrong in improving the conveniences of living; but if all that we leave to our children is a higher standard of living consisting of more comfort and greater convenience, then their heritage is nothing more than a collection of hollow status symbols.

So with our responsibility, as manufacturers, as marketers, as agencies, as government, as people entrusted by the citizens of this country to manage a standard of living, we must also manage a standard for living; and I earnestly believe it is our collective responsibility, and we as professionals in the arts of persuasion would gladly join with all responsible bodies who are prepared to bring a balance to our way of life—not to tear down our standard of living in order to bring it to a degree of equalization at a lower level, but to bring up the total welfare of our collective privilege as Canadian citizens by giving a standard for living as well as a standard of living.

Co-Chairman Senator CROLL: Gentlemen, may I, on behalf of the committee, myself and the co-chairman, thank you for your excellent and informative brief, and more particularly for the appendix called "The Economic Implications of Advertising," which I think will become a reference document of the first order because this is just the beginning of the public interest and the public discussion of this topic, this was very wisely done so that people can refer to it from time to time.

We are particularly pleased to find you competitive people are all in agreement today. Further, we are particularly pleased to find that we can see so many of you at one time without charge, and have an opportunity to pick your brains a bit. We have profited from your knowledge, and we hope a little of your persuasiveness rubs off on us, and for that we all thank you.

Mr. VAUGHAN: Thank you very much, sir.

The committee adjourned.

TUESDAY, December 13, 1966.

Upon resuming at 3:00 p.m.

Co-Chairman Senator CROLL: Will the committee come to order, please.

Mr. MCCUTCHEON: Mr. Chairman, I know that we have a busy afternoon ahead of us, but I would like to put on record a letter I received from Mr. Robert "Bud" Simpson, the Member of Parliament for Churchill,

Co-Chairman Senator CROLL: Yes, you may read it into the record.

Mr. MCCUTCHEON: The letter is dated December 9, 1966, and reads:

Dear Mr. McCutcheon:

Canadians in general have been following the work of the Committee on Consumer Credit in relation to the cost of food with a great deal of interest as I am sure they all realize that this subject is one of utmost importance to all Canadians. I realize that many briefs have been presented to the Committee and many witnesses have appeared before it, and I feel that these briefs in general have dealt with the food price situation in most of the major centres of Canada.

It is also possible that the food price structures from some of the smaller centres have been presented to the committee. However, in general I would feel that representations from the smaller centres have come from areas not too far removed in a transportation sense from the main arteries of Canada.

I would therefore like to take this opportunity of submitting for the consideration of the committee an abbreviated report of some current food prices in Churchill, Manitoba, with a comparative cost of similar items in Winnipeg, Manitoba, as shown in the *Taiga Times* of Churchill of October 31, of which I am enclosing twenty copies.

Canadians in general are justifiably concerned with current food prices. However, in an effort to bring to the committee's attention the situation faced by residents of many isolated areas in Canada, I would respectfully request that these comparative food costs which I have placed before the committee be given the fullest possible consideration in their deliberations.

The plight of the consumers in Churchill is shared by many centres in northern Manitoba, such as the communities along the Hudson Bay line and larger towns such as Thompson and Lynn Lake. Admittedly, transportation costs are largely responsible for added costs to consumers in the north. However, they are not the sole cause of what are felt to be unnecessarily high prices.

Canadian National Railway freight rates as quoted December 9th, from Winnipeg to Churchill are outlined on the attached sheet.

The abbreviated report of the current food prices, which is referred to in the letter, is as follows:

C.N.R.—L.C.L. FREIGHT RATES WINNIPEG TO CHURCHILL

Fresh Vegetables	$ 5.25 per cwt.
Fruit	"
Bread	"
Butter	3.30 per cwt.
Eggs	"
Milk Powder	"
Potatoes	"
Canned Goods	"

All above rates subject to additional 10% if heating requested.

Rates quoted are for minimum of 1,000 lbs. and scale down at 5,000 and 10,000 lbs.

Co-Chairman Senator CROLL: Mr. McCutcheon, what you have just read will appear in the committee's proceedings. Would you please hand the other documents you have to Dr. James so that a summary may be made of what they contain.

Mr. SMITH: Perhaps this page from the *Taiga Times* could also be included in the proceedings.

Co-Chairman Senator CROLL: Mr. Smith, our printing costs are becoming rather high. Can't we summarize this document?

Co-Chairman Mr. BASFORD: It is quite short.

Co-Chairman Senator CROLL: Very well.

Co-Chairman Mr. BASFORD: Having spent two weeks this summer in the arctic and the Northwest Territories, I think Mr. McCutcheon is quite correct in bringing the northern food prices to the attention of the committee, because they are certainly very high.

Mr. SMITH: This article is from the *Taiga Times*, Churchill, Manitoba, under date of October 31, 1966, and is as follows:

FOOD PRICES MAKE NEWS . . . HERE AND WINNIPEG . . .

In the newspapers, newsmagazines, television and over countless cups of tea, the cost of living as it affects the housewife in her weekly shopping has suddenly become "news". Prices are said to be rapidly rising to the point of "inflation"—in other words, faster than the increase in production, thereby causing the ing dollar to decline in buying power.

Many Callers. The *Taiga Times* has received so many phone calls and requests to "do something about the situation in Churchill "that we are publishing on our front page a comparison of exactly similar items of food carried by the same company in Winnipeg and Churchill. We feel the facts will speak for themselves:

Item To Be Compared	Winnipeg Price	Churchill Price	Diff.
HAMBURGER, 1 lb.	.39¢	.69¢	.30¢
WIENERS, Burns, 1 lb.	.49¢	.69¢	.20¢
POTATOES, No. 1 Can. 25 lb. poly. bag.	.85¢	$2.89	$2.04

Item to be Compared	Winnipeg Price	Churchill Price	Diff.
T.V. DINNERS—Swansons Turkey, Beef, Chicken	.59¢	.79¢	.20¢
CHEDDAR CHEESE. Lb. Ontario, Medium	.65¢	.79¢	.14¢
PEASOUP, Habitant, 28 oz. tin	4/83¢	4/$1.56	.73¢
APPLE DRINK—Allen's 48 oz.	3/95¢	3/$1.65	.70¢
TOMATOES, 28 oz. tins, Choice	3/89¢	3/$1.35	.46¢
PEAS, Aylmer, 15 oz. tins, Choice	5/75¢	5/$1.25	.50¢
CORN, Aylmer, 15 oz. tins, Cream style	4/69¢	4/98¢	.29¢
FRUIT COCKTAIL, 15 oz. Aylmer, Choice	2/49¢	2/78¢	.29¢
SUGAR, 10 lb., Manitoba	.85¢	$1.25	.40¢
COFFEE, Maxwell House 1 lb. bag, reg.	.69¢	.97¢	.28¢
CIGARETTES, Popular brands plain or filter, Ctn.	$4.09	$4.45	.35¢

"SHOPPER" COMPARES WINNIPEG-CHURCHILL FOOD PRICES IN LOCAL FOOD-PRICE SURVEY...

The following is a list of compared food items. Churchill prices were compared with food advertisements in "Winnipeg *Free Press*" and the "*Carillon News*", Steinbach, Manitoba. Steinbach is approximately same size community as Churchill:

Prices In Churchill	Winnipeg & Steinbach, Man.
SIDE BACON: $1.25 to $1.39 lb.	.89¢ lb.
SIRLOIN BEEF: $1.25 lb.	.99¢ lb.
ROAST BEEF: $1.10 lb.	.45¢ — .59¢
PORK CHOPS: .95¢ lb.	.69¢ @ Wpg. 10/$1.00 Stbch.
BUTTER: .72¢ lb.	.64¢ lb.
CHEESE (Bulk) .95¢ lb.	.89¢ lb.
BREAD, White, Sliced	6/$1.00 and
McGavins: .27¢—Westons .29¢	7/$1.00
ORANGES: 5 lb. Polybag $1.19	5/89¢
APPLES, MacIntosh Handipak B.C. grown, approx. 19 lb. $2.89	$1.89
STEW BEEF: .79¢ lb.	.69¢ lb.
BEEF LIVER: .69¢ lb.	.49¢ lb.
MILK POWDER, Starlac 3/$1.49	3/97¢
PEANUT BUTTER, York, 48 oz., $1.29	.93¢ & .99¢
POTATOES: 75 lb. bag, $4.35	$2.18
FLOUR, 25 lb. bag, $2.69	$1.89
PANCAKE MIX, Aunt J., 36 oz., .99¢	.59¢
SHREDDED WHEAT, 12 oz., .33¢	.29¢
EVAP. MILK, Pacific, Talls, 6/$1.23	6/95¢
BANANAS, .29¢—.33¢	2/35¢
ONIONS, .20¢ & .29¢ lb.	3/39¢
CARROTS, 3 lbs. .45¢ & .55¢	6 lb. .49¢

Co-Chairman Senator CROLL: Our witness this afternoon is Mr. Philip Moyes, President of Grocery Products Manufacturers of Canada. The committee will have ample opportunity for questioning him following the presentation of his brief.

Proceed, Mr. Moyes.

Mr. Philip Moyes, President, Grocery Products Manufacturers of Canada: Mr. Chairman and members of the committee, my name is Philip Moyes, and I am President of Grocery Products Manufacturers of Canada, a trade association of 82 leading manufacturers of branded packaged products, primarily sold through grocery outlets, which together account for $1½ billion of grocery sales a year. A list of member companies and a statement of our objectives are attached to this brief. I am the salaried full-time chief executive of this organization. As such, I speak for the manufacturers, but at the same time I am an association executive and not a manufacturer.

If I may at this stage depart from the brief I should like to say that I was very interested, during the proceedings this morning in Senator Inman's request for information on advertising in the food industry. Therefore, together with Mr. Roxan, I did a little homework on this during the lunch hour, and these are the best figures that we could come up with in the time available, but I think you will find them substantially accurate. The expenditures on food in 1965, which are drawn from the National Accounts Annual Report, page 50, were $7,114 million, which is, in fact, $365 per capita a year. The figure that I am using for the advertising figure was filed by the Institute of Canadian Advertising this morning and would certainly be of the magnitude I would estimate—$10 a head a year, including national and local advertising. That means that the figure is under 3 per cent of the selling price of food per year. I will re-phrase that just a little bit and say that $10 a year on advertising per capita in Canada is equivalent to 20 cents a week on the food bill, or 3 cents per person per day. This is the area in which we are working.

2. This Committee is to be commended for focussing public attention on a matter of urgent importance to our industry and to consumers in general, namely:

> "the trends in the cost of living in Canada and factors which may have contributed to changes in the cost of living in Canada in recent months."

3. This is a task which in the field of food alone will demand a great deal of time and research, quite apart from such other diverse components of the cost of living as cars, doctor bills, housing and the like.

4. The food industry feels a great responsibility not only to improve the already high living standard of Canadians by constant improvements in the quality, utility, attractiveness, and range of choice available to the consumer, but to co-operate in our country's broader humanitarian mission to aid and feed the less fortunate peoples of the less developed nations of the world.

5. The background and reasons for the recent price rises, and the price trends to be anticipated for the future, are a matters of intense interest to our industry, and its ability to serve and satisfy the consuming public.

6. We have therefore followed with great interest the proceedings of this Committee in its hearings to date. While a great deal of factual information has now been tabled, however, we are concerned with the confusion in the public mind on what has in fact been happening to food costs. Further to this, a careful study of the testimony and questioning indicates that members of the Committee may believe that food costs would be reduced by controlling advertising, promotions and package weights. We submit that some at least of the proposals suggested would tend to raise food prices.

7. Since this is clearly far from the intention of the Committee, we therefore requested the opportunity to appear and aid this Committee's effort to ascertain the facts, so that informed judgements may be made on these vital issues in the public interest.

8. The food component of the Price Index has risen less than the over-all Index, at an annual average growth rate of only 1.9 per cent for the period 1949 to 1965. During this time wages have been rising at a faster rate, so that in real terms, the cost of food has been coming down. The latest figures we have for the average hourly wage in manufacturing industries relate to May of this year. In those terms, a man would have had to work for 7.7 minutes in 1961 in order to buy a quart of milk; last May he would have had to work 7.02 minutes. His pound of beef sirloin in 1961 cost 31.8 minutes of work against 30.8 minutes this year. A twenty-four ounce loaf of bread demanded 7.8 minutes in 1961 and 7.5 minutes in 1966. A 15-ounce can of choice pears could be bought with 5.8 minutes of work in 1961 as against 5.2 minutes of work this year. Remember that these figures span the period of greatest growth in the Food Index from January 1965 onwards and yet even including this period the price of food in real terms declined.

Since we drafted this brief one additional piece of information was released. In the Weekly Bulletin of the Dominion Bureau of Statistics dated December 9, it was shown that for the first eight months of 1966 the total labour income in Canada was up $2 billion over the same period last year—a rise of 12.6 per cent.

9. To put it another way, in 1961 Canadians spent 22.4 per cent of their personal disposable income on food; in 1964 this had dropped to 21.2 per cent; and in 1965, the last period for which figures are available and which includes the first twelve months of the steep rise in prices, we spent only 20.3 per cent of our disposable income on food.

10. In other words, the food industry has caught up its backlog of growth, and has still succeeded in delivering its products to the housewives of this country at a lower real cost than in 1961.

What Has Happened To Food Expenditures?

11. Witnesses who have appeared before you have shown that, after a long period of stability, the price of food started to climb early in 1965. It became serious by mid-year and since then has risen at an annual rate of around 7.5 per cent.

12. We would like to take a closer look at the figures submitted by the Dominion Bureau of Statistics, showing the sectors of the food industry where the main price increases have occurred. With another DBS Survey those increases are then translated into dollars and cents to demonstrate the direct effect they have had upon the housekeeping budget of the average Canadian family.

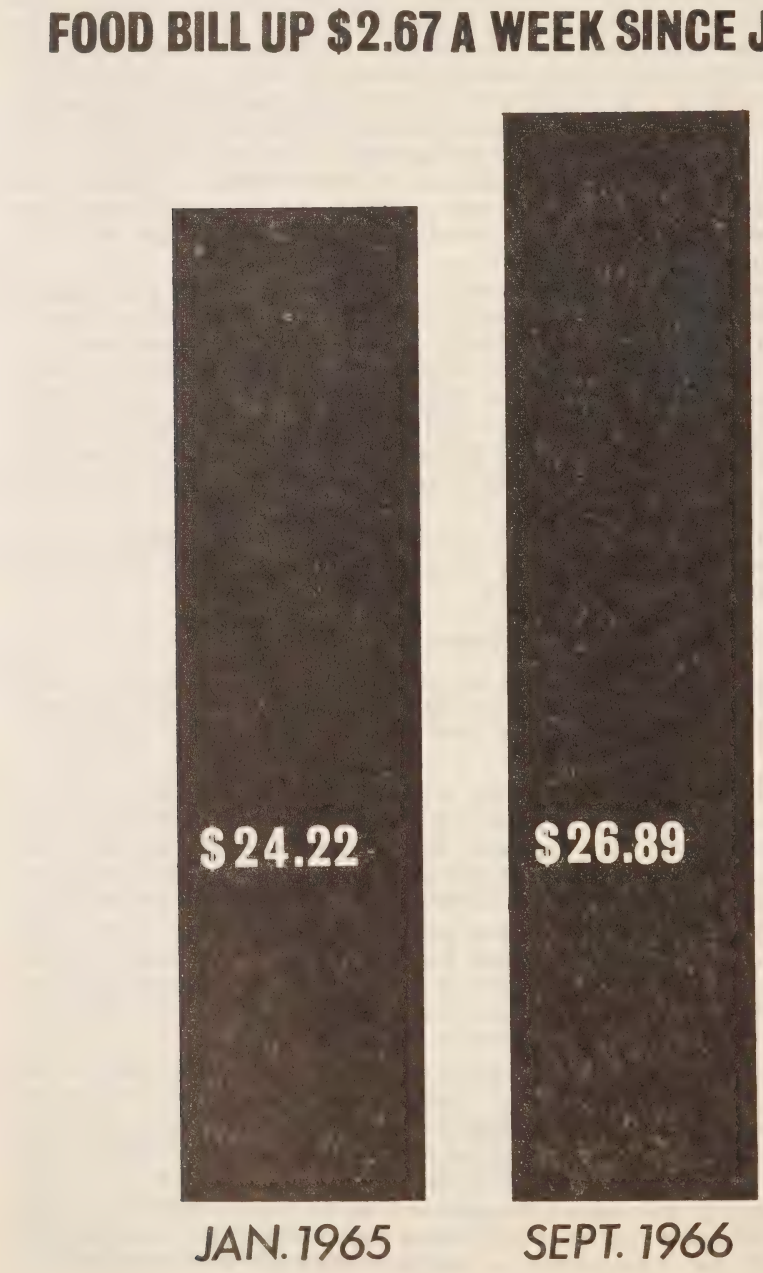
13. To do this, we start with a report published by DBS in December of last year. This report entitled Urban Family Food Expenditure, Catalogue No. 62-524, contains the results of the latest in a series of surveys which the Prices Division of DBS make periodically to ensure that the Price Index reflects the food buying habits of Canadian families.

18. The DBS weighting system used in compiling the food price index each month is based on the amount of each type of food purchased by the families included in these surveys. It is designed in such a manner that, as nearly as possible, an increase of one per cent in that average family's food budget will be reflected by an increase of one per cent in the total Food Price Index.

19. Similarly, an increase of one per cent in the cost of one of the sub-groups in that family's budget, dairy products for example, will be represented by approximately the same increase in the price index for that sub-group.

20. It is thus possible to reverse the process. A one per cent rise in the total food price index reflects the extra amount that family will have to pay for all the food included in that sub-group.

21. To arrive at those significant figures, we have used as our base the food price index for 1962 of 126.2 and the average family's weekly expenditure on food of $23.07, as shown in the DBS Survey.



If I may make an apology to the committee at this stage, we laid the foundation step by step, perhaps rather slowly on this one, in order to come to what are now solid facts and which we believe are the serious matters of direct concern to this committee.

22. By January 1965—the latest breakdown we have—the food price index had risen to 132.5. Therefore, by multiplying the 1962 average of $23.07 by $\frac{132.5}{126.2}$
we see that in January 1965 the housewife was spending $24.22 on food.

23. In the same way, the September 1966 food price index of 147.1 sets the family weekly food expenditure at $26.89.

24. In other words, her food bill had risen by $2.67 a week in just 21 months. This $2.67 a week is a substantial additional expense for the average Canadian family. The increase of 11 per cent in 21 months is of a magnitude to cause concern. That is why this committee has chosen to start with the grocery business and has spent these past weeks studying this situation.

25. Let us take a closer look at his additional $2.67 a week that the average Canadian family is having to pay for its food. To do this, we have taken the family's expenditure on each main category of food, as shown in that 1962 survey by DBS. By applying the price index for that category you can then find what that family had to pay for it in January 1965 and what it had to pay for it last September.

26. The categories are: farm products, fish, processed foods, other and restaurant meals.

27. Farm products include beef, pork, and other meats in all forms; dairy products; eggs; poultry; fresh vegetables and fresh fruit.

28. Processed foods cover fats and oils (except butter); canned fruits and vegetables; cereal products and baked goods; and what DBS terms "miscellaneous groceries" including tea, coffee, soft drinks, candy, sugar, honey, molasses, jam, salt, spices, salad dressings, pickles, catsup and relishes, soup, baby foods (canned), peanut butter, etc.

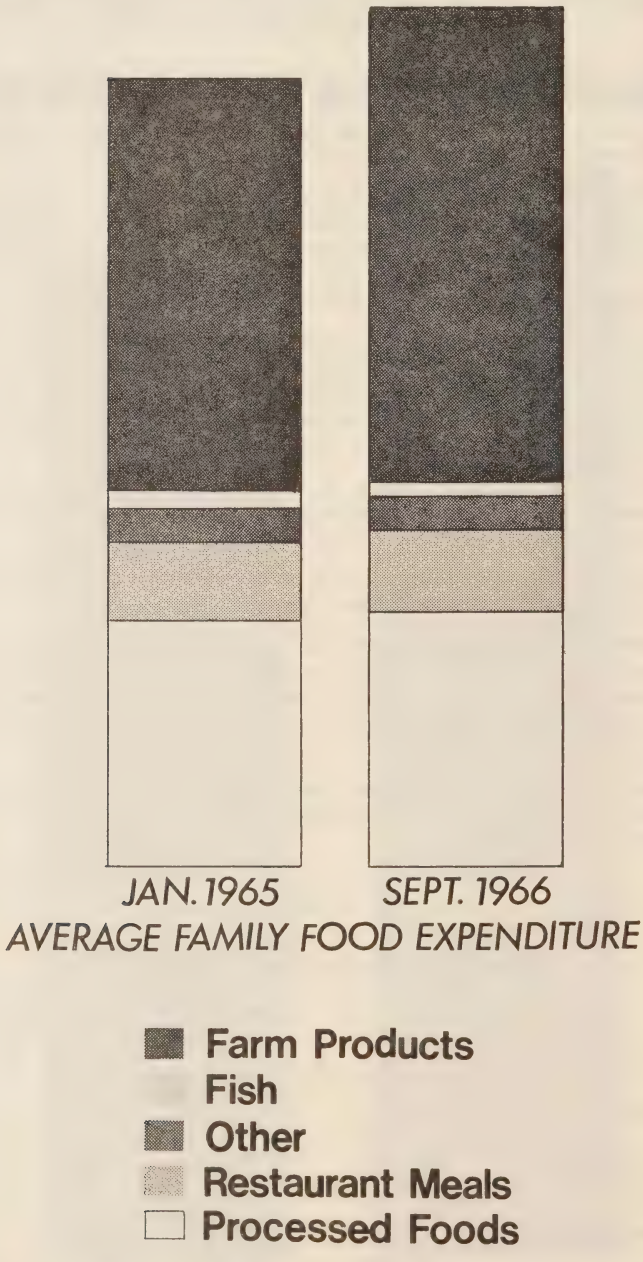
29. However, certain groceries are found under the heading "Other". They include frozen foods, prepared and partially prepared dishes, and soft drinks consumed away from home.

30.

Exhibit "A"

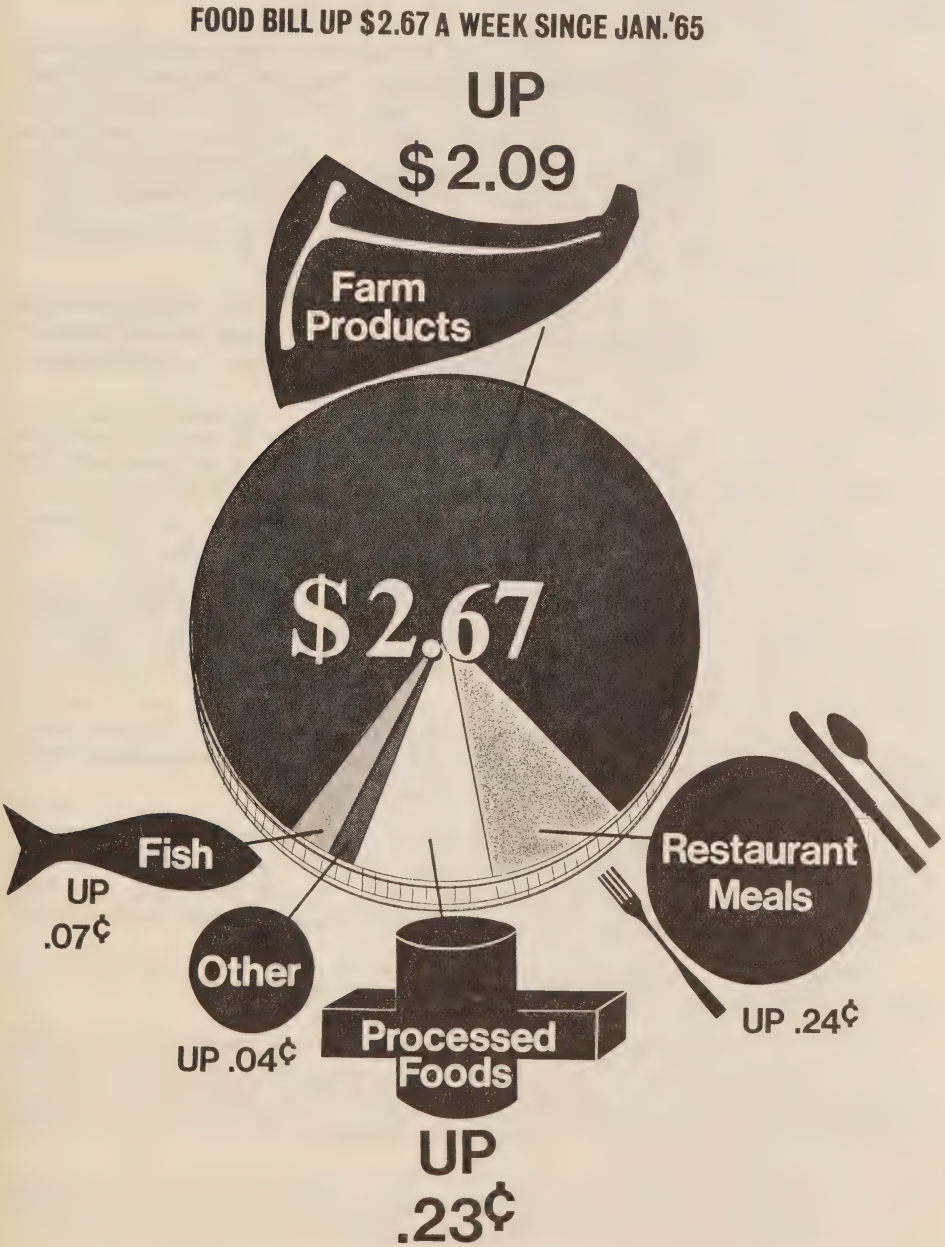
AVERAGE WEEKLY FOOD EXPENDITURES
OF A TYPICAL CANADIAN FAMILY
JANUARY 65 AND SEPTEMBER 66

	Jan. 65	Sept. 66	Increase Jan. 65/Sept. 66 $ Value	Per Cent Increase
Farm Products	$12.61	$14.70	$2.09	16.6%
Fish	.47	.54	.07	15.0%
Processed Foods	7.58	7.81	.23	3.0%
Other	1.12	1.16	.04	3.6%
Restaurant Meals	2.44	2.68	.24	9.8%
TOTAL	$24.22	$26.89	$2.67	11.0%


FOOD BILL UP $2.67 A WEEK SINCE JAN.'65
JAN. 1965
SEPT. 1966
AVERAGE FAMILY FOOD EXPENDITURE
Farm Products
Fish
Other
Restaurant Meals
Processed Foods

31. In January 1965 the family spent $12.61 a week on farm products; 47 cents on fish; $7.58 on processed foods; $1.12 on other foods, and $2.44 on restaurant meals; for a total of $24.22 a week.

32. By September of this year, the farm products bill had gone up to $14.70; fish to 54 cents; Processed foods to $7.81; other foods to $1.16; and restaurant meals to $2.68; for a total of $26.89 a week.



33. And thus we are left with an increase of $2.67 a week during the 21 month period to examine, dissect and trace back to its causes.

34. And here, members of the committee is a fact of the utmost significance. Of that extra $2.67 on the average family's weekly food bill, $2.09 or nearly 80 per cent was caused by higher prices for farm products.

Please note that I am not saying here that farm products have gone up 80 per cent. You will see from Exhibit A that they have gone up 16.6 per cent as shown in paragraph 30.

35. These are the products which carry few national brand names. These are the products which require little or no processing. These are the products where government control is greatest; where the traditional contact is directly between the primary producer or his representative in the form of a marketing board, on the one hand and the wholesale or retail buyer on the other. These are the products from which the farmer gets his largest slice of the consumer dollar.

Again, let me interject here that we are looking at the retail prices on the shelves as established by D.B.S., not the prices on the farm.

36. How about the remainder of the $2.67 increase in the family food bill; the 58 cents not yet accounted for? Almost half of it, 24 cents, has to go toward the higher cost of eating out. Another seven cents goes on fish, and four cents on other foods.

37. Processed foods were responsible for adding only 23 cents a week onto the average Canadian family's weekly food bill—a rise of 3 per cent in that 21 month period from January 1965 to September 1966. That is equivalent to an annual growth rate of 1.7 per cent. Certainly a substantial part of that increase resulted from higher prices for the raw materials used by the industry.

38. Processed foods are the items where national brands are most strongly established. These are the items where advertising has been most effective in keeping the consumer informed and in establishing broad markets that have kept unit cost down.

39. On a percentage basis, it should be remembered that we are talking about a 21 month period. A 3 per cent annual growth rate, for example, would be reflected by a rise of 5.3 per cent over this 21 month period.

40. Exhibit A shows the percentage rise of total food expenditure from January 1965 to September 1966 as 11 per cent. The percentage rises of the categories are: farm products, 16.6 per cent; fish 15 per cent; processed foods, 3 per cent; other foods, 3.6 per cent and restaurant meals, 9.8 per cent.

41. In Exhibit B, we take a closer look at what has happened to the individual components of these categories.

42. Under farm products, meat accounts for no less than $1.16 out of that extra $2.67 the housewife has to find each week. Dairy products, including butter, swallowed up an additional 37 cents a week. Eggs, the price of which rose by more than 50 per cent in that 21 month period, cost her an extra 36 cents and poultry another 5 cents.

43. All told, she had to pay an extra $1.94 a week for those items which the agricultural specialists call livestock and products.

44.

EXHIBIT 'B'

AVERAGE WEEKLY EXPENDITURE
OF A TYPICAL DBS FAMILY
JANUARY 1965 AND SEPTEMBER 1966
ON FARM PRODUCTS

	Jan. 1965	Sept. 1966	Increase (Decrease) Dollars & Cents	Increase (Decrease) Per Cent
FARM PRODUCTS				
Beef	$ 2.32	$ 2.74	$ .42	18.1%
Pork	1.76	2.30	.54	30.7%
Other Meats	1.12	1.32	.20	17.9%
Dairy Products (Including Butter)	3.48	3.85	.37	10.6%
Eggs	.60	.96	.36	60.0%
Poultry	.90	.95	.05	5.5%
Total Livestock & Products	$10.18	$12.12	$ 1.94	19.1%
Fresh Vegetables	1.37	1.38	.01	0.7%
Fresh Fruit	1.06	1.20	.14	13.2%
Total Farm Products	$12.61	$14.70	$ 2.09	16.6%
Fish	$ .47	$ .54	$ .07	14.9%
PROCESSED FOODS				
Fats & Oils (excluding butter)	.33	.36	.03	9.1%
Canned Fruits	.57	.56	(.01)	(1.8%)
Canned Vegetables	.56	.60	.04	7.1%
Cereal Products & Baked Goods	3.21	3.32	.11	3.4%
Miscellaneous Groceries	2.91	2.97	.06	2.1%
Total Processed Foods	$ 7.58	$ 7.81	$ 0.23	3.0%
Other	$ 1.12	$ 1.16	$ .04	3.6%
Restaurant Meals	$ 2.44	$ 2.68	$ 0.24	9.8%
TOTAL FOOD EXPENDITURES	$24.22	$26.89	$ 2.67	11.0%

45. To provide her family with fresh fruit, she had to pay last September 14 cents more in January 1965. Fresh vegetables, with local crops seasonally available cost her only an extra cent. Fish cost an additional 7 cents.

46. Under processed foods, canned fruits actually cost the average family a cent less at the end of the period than at the beginning. Canned vegetables went up four cents. Cereals went up 11 cents.

47. General groceries (termed miscellaneous groceries in the food price index) rose by only six cents. This represents an increase of a fraction over two per cent for the whole of the 21-month period.

48. Included in this group are many of the products manufactured by the members of GPMC. They include tea and coffee, soups; infant foods; jams and preserves; peanut butter; packaged desserts; honey; pickles; salt; spices; salad dressings; catsup and relishes.

49. To sum up, we examine what proportion of the January 1965 food expenditure came from each product category and compare this to the price increase since that time.

50. EXHIBIT 'C'

PERCENTAGE COMPOSITION
OF FOOD EXPENDITURE INCREASE

	Percentage of Jan. 1965 Food Expenditure	Increase Jan. 65/ Sept. 66	Percentage of $2.67 Total Increase
Farm Products	52.1%	$ 2.09	78.3%
Fish	1.9%	0.07	2.6%
Processed Foods	31.3%	0.23	8.6%
Other	4.6%	0.04	1.5%
Restaurant Meals	10.1%	0.24	9.0%
TOTAL	100.0%	$ 2.67	100.0%

51. In January 1965, farm products accounted for 52.1 per cent of all food expenditures by the average family; fish for 1.9 per cent; processed foods for 31.3 per cent; other foods for 4.6 per cent; and restaurant meals accounted for 10.1 per cent.

52. In the period from January 1965 to September 1966, farm products rose by $2.09. As a proportion of the total $2.67 rise, this represents 78.3 per cent. Fish, with 7 cents, contributed 2.6 per cent of the total rise. Processed foods with 23 cents, contributed 8.6 per cent; Other foods with 4 cents, contributed 1.5 per cent: and restaurant meals, with 24 cents, contributed 9 per cent of the total $2.67 rise.

53. In other words, farm products, representing just over one-half the food expenditures in January 1965, have contributed nearly 80 per cent of the rise in prices. Farm products are characterized by basic packaging, few name brands and little advertising or promotion.

54. Processed foods, representing just over 30% of the food expenditures in January 1965, have contributed under 10% of the rise in prices. Processed foods are characterized by sophisticated packaging, strong name brands, and active competition through advertising and promotion.

55. We submit that these figures record the substantial achievement of packaged groceries in keeping prices stable through a period of strong inflationary pressures.

ROLE OF THE NATIONAL BRAND

56. Now that we have looked at the history of the year and three-quarters up to this September we would like, with your permission, to make some general observations in this area of processed foods which accounts for 23 cents of that $2.67 rise.

57. The reason we would like to examine processed foods in more detail is that this heading covers almost all of the branded packaged food products

manufactured by members of Grocery Products Manufacturers of Canada. In order to aid the Committee in their investigations, we would like to paint a broadscale background of conditions in the packaged grocery business, against which the individual testimony presented to this Committee may perhaps be seen in relative perspective.

58. Grocery manufacturers do not sell to their ultimate customers, and this is a factor which leads to intense and healthy competition. The customer is and always will be the housewife, yet we sell to the grocer. This is yet another of the checks and balances which ensure maximum competition to the benefit of the housewife.

59. She makes the final judgements. Once she has picked off the shelf a product with a familiar name, she takes it home and tries it on a highly skilled and competent jury, her husband and the kids. If they like it, she buys it again. If they like it the second time, she may add it mentally to her regular shopping list, and by so doing she will change the pattern of buying by her local store manager, and thus throughout the industry. Equally, if the jury finds against it, she will remember not to buy it again. And, once again the pattern of the industry has been changed.

60. We have found over the years that the housewife's judgements are valid and based on a great deal of experience.

61. Each housewife is truly the ultimate judge of the success or failure of a product, and she reviews her judgement every week. Each time she takes her cart around the grocery store, she is voting for or against her last week's choices, and her vote is recorded by the packages that disappear from the shelves and those that remain. She does not have to give reasons for her choices, and there is no appeal from her judgement.

62. Now let us look at the function of the grocer who is our direct customer. The choice of what to buy, how to display it and what price to offer it at, is his by law and must remain his prerogative. His aim is to reflect as closely as possible the pattern of tastes and value judgements which together set the patterns of his customers' demands. The closer he can get to these, the more efficient his operation, and, the more successfully he can fight the competitive store down the street.

63. The grocer is intensely aware of the changes in demand patterns, and he aims to predict what will happen next week and the week after. Sometimes he's right, sometimes he's wrong. He decides whether to buy a particular product and how many shelf facings to assign to it.

64. On the judgement of both types of customer—the housewife and the grocer—depends the fate of our products. Both make their value judgements and bring down a verdict—week by week, month by month, year by year.

COMPETITION ON THE SHELF

65. Now when the manufacturer has sold his products to the grocer and they appear on the shelf, the really intensive competition starts. His product in its well-known package is matched against all the compentitive brands and private label products. His brands and all other brands will be found at the store down the street, and at the store on the other side of town, and in most cases coast-to-coast.

66. The housewife can find her national brand products in any store. Having accepted their standard, she can trust the fact that she will be buying the same product every time with the same characteristics of taste, flavour, texture, convenience, appearance, protection and all the other attributes which make it desirable to her. She can comparison-shop in all the stores convenient to her

knowing that in each store the same brand is of the same quality and only the price may differ according to the competitive pricing policies of the retailers concerned.

67. It is most noticeable that the housewife insists on having this freedom of choice between many competitive suppliers, and is reluctant to shop at stores where the choice is limited. She recognizes to some extent at least the power that resides in her right to choose, and she insists on exercising that right.

MANUFACTURER COMPETES WITH RETAILER FOR CUSTOMER LOYALTY

68. Thus in a very real way the grocer and the manufacturer are directly competing with each other for the custom of the housewife. Each individual manufacturer aims to provide her with products she values so highly that she will insist on buying them at whatever store she uses. He hopes that if she can't get his products at one store she will go to another store that does stock them.

69. On the other hand, each individual grocer aims to offer her outstanding values in cleanliness, ease of shopping, variety of products, prices and the like, so that she will insist on shopping at his particular store and no other.

70. This is healthy competition which works effectively in providing better value for the housewife.

71. The grocer may see his private label products as playing a role in this competitive battle, since the customer can get them only in his stores and not in the competing store down the street. Once again, the choice rests with the housewife and she indicates her decision in the usual way—by taking one product from the shelf and leaving the other product sitting. In this she is watched most carefully by both manufacturer and grocer. What is her verdict?

72. Despite the opportunity she has had over the years to develop a taste for private label products, and despite the persuasion by means of unusually large allocations of shelf space, of particularly favourable displays, and of claims of comparable quality, she continues to pick the manufacturers' brands most of the time.

73. However the battle goes in the future, one thing is clear. In the grocery business, the brand manufacturer is faced with severe competition from all directions. This is a healthy state of affairs which has undoubtedly contributed to the rapid development of the industry and can only work to the benefit of the housewife.

THE QUESTION OF VALUE

74. The continued growth of manufacturers' brands reflects the housewife's judgement on their value to her. We have already referred to the complex nature of this value judgement, which includes the flavour, aroma, appearance, convenience, uniformity, reliability of the product, together with the changing tastes of the housewife, her husband and their children.

75. Perhaps the great achievement of the grocery industry in recent years has been the recognition that there is no such thing as a mass market. Housewives and their families are individuals, with individual and changing tastes.

76. It is not, of course, possible to provide products custom-tailored to each individual customer. However, where a reasonable number of people share like tastes, it is now possible to cater to their particular needs, and today's grocery industry bears witness to the successful way in which this can be done.

77. The increasing sophistication of the housewife in the matter of food has become striking in recent years. A substantial number of housewives insist on the top-quality products in all categories, and this is not by any means restricted

to the upper-income groups. The top-line brand products are demanded by an increasing number of discriminating shoppers each year.

78. While this is true, however, there is an equally clearly identifiable group of customers who, for good and valid reasons of their own, find their set of values most adequately supplied by price-oriented products, and who rate the other value characteristics as secondary when making their choices.

79. This stresses once again that consumers are individuals, and particularly in the matter of food. As has already been expressed to this Committee, if all consumers rated their values in the same way, there would be only one size of any one product available on the grocery shelf; and if the first criterion in this choice was the price, then this would be the cheapest line of every product available today.

80. As a footnote to this, we would point out that this might represent the ultimate in reducing the prices of food to the consumer. However, as soon as man raised himself above the subsistence level in food production, he began insisting on making individual choices, and with an increasingly high standard of living he and his wife know exactly what they as individuals like—and are determined to get it.

81. What he and she want, in increasing measure, turns out to be the top products which in most cases are available only under manufacturers' brands. It is precisely on these top products that the reputation of the manufacturers' brands has been built up over the years.

Product Improvement and New Products

82. How does a grocery brand item come to occupy a preferred position with a large proportion of all housewives in Canada? It doesn't happen by chance. It results from a manufacturer's determination to accept nothing less than the best—in equipment, housekeeping standards, ingredients, and technology at every stage of the processing.

83. That introduces a value judgement—the "best". The "best" is not the manufacturer's judgement of what is best, but the housewife's judgement. It is determined by talking to her, interviewing her, writing letters to her. In every way we ask her what she likes, what she does not like and the improvements she would like to see.

84. When a new idea has been identified in this way and found to be desired by a sufficiently large number of housewives, it is turned over to the technologists in order to determine whether the new and desired characteristic can in fact be provided, or whether it will have to await a further break-through in processing techniques.

85. New processing techniques are constantly being developed, examined and applied. In recent years we have seen for instance the Gamma irradiation of foods, and the freeze-drying of foods, each opening up new vistas for the present and future.

86. Let us suppose that the new or improved product can be successfully produced. The next stage is to make up sample runs, and place these out for wide tests by housewives in their own homes. If results are unfavourable, the product will be withdrawn at this or any other stage of the testing.

87. However, if the product still proves out it moves into test markets where it is tried out under commercial conditions. This is the acid test. Does it move off the shelves? Does the housewife really want it at the price at which it is offered?

88. Finally, if all indications are favourable, the product is formally introduced on a regional or national basis. A product properly tested at all stages of its development in this way can still fail. However, the number of failures in properly tested products is very small. If a manufacturer disregards what the housewives tell him in their tests, however, he is choosing the quickest way to the new product graveyard.

89. New items successfully introduced in recent years include: heat-and-eat fish products, powdered breakfast drinks; instant hot cereals; tenderized beef; instant potato; frozen ready-to-bake cookies, buns and rolls, mousse-type desserts; frozen vegetables with sauces; instant chip dips; instant dressings; moist-type cake mixes; ice cream cakes and pies; frozen soup; mixed flavour jellies; non-dairy coffee creamers; freeze-dried coffee; dietetic foods and drinks; improved pizza mixes; new types of cereal; individually packaged smoked sliced meats; soft drinks in cans (now with tear tops); frozen pastry mix and pastry shells; low calorie whipped topping; concentrated liquid milk; plastic coated milk cartons; improved powdered fruit drinks; brown and serve sausages; frozen French fries; boil-in-bag foods; dry soup mixes with freeze-dried chicken and freeze-dried mushrooms; etc., etc.

90. The list could go on indefinitely, particularly if we go into the area of new flavours and flavour mixes. These are only the outstanding products where the differences are immediately visible to the housewife.

91. In addition, every product on the shelves has undergone improvement during these years. Resistance to staling, retention of moisture, flavour, stability, protection against humidity, light, oxidation—all these characteristics are continually being upgraded in our regular food products and we are hardly aware of them. We don't see the changes because they have been introduced gradually. However, if we suddenly went back only ten years to buy our groceries, we would be amazed at the differences in convenience, flavour and quality which today we take for granted.

92. And yet we don't entirely take them for granted. Consciously we may not be aware of them, but each time the housewife and her family sit down to a meal, they are passing a fresh new judgement on the acceptability of the foods they are eating, comparing them, liking the tastes, and complimenting the cook. It is on this basis the housewife knows just how highly her family values the brand products she buys.

Convenience Foods

93. As we detailed the new products which have been introduced you will have noticed the great emphasis on reduced preparation time in the home. In a sense one of the most important things we offer the housewife is the time she saves in the kitchen which frees her for other activities or for leisure.

94. The average housewife in a family of four would spend five-and-a-half hours a day in her own kitchen if she made no use of pre-prepared foods. By using these foods, her time is reduced to an average of one-and-one-half hours a day.

95. Four years ago an extensive government survey in the United States showed that the housewife there was spending on convenience foods just over 14 cents of her food dollar; and that it would have cost her 15 cents to buy the ingredients and make those same foods in her own kitchen.

96. Peas, the most frequently used green vegetable, are a classic example of how the food industry saves the housewife both time and money. The same survey indicates that to provide each member of her family of four with a serving of fresh peas, would have cost the housewife at that time 52 cents and would take up 23½ minutes of her time. If she used frozen peas, her cost was cut

by more than half, to 24 cents and preparation time, including the initial cooking period, is to cut a mere 6½ minutes. With canned peas the cost came down still further to 20 cents, and preparation is just 1 minute.

97. One reason the housewife pays less for frozen or canned peas than fresh produce is the elimination of waste before it goes into her grocery basket. To get the equivalent of 12 ounces of frozen peas, she would have to buy two pounds of fresh peas in the pod. If she felt like serving her family peas in December or January, those peas in the pod would either not be available or would be very, very expensive.

98. The critical factor here, as in all other aspects of the grocery industry, is that the housewife is free to make her own choice. She can buy convenience food or not, just as she pleases. It is there if she wants it—and apparently many thousands do. Potatoes are perhaps the clearest example. The housewife can buy unwashed potatoes; washed potatoes; potatoes wrapped in foil, ready to pop into the oven; instant mashed potatoes; frozen uncooked French fries; or pre-cooked French fries; or canned, peeled potatoes. Each has a varying amount of pre-preparation built-in at the manufacturer's plant. The choice is hers, and she exercises it freely.

99. Characteristic of the convenience food field is the substantial demand for new processing techniques and technology.

100. This often involves research on a scale possible only for a manufacturer with extensive technological and marketing experience, and the knowledge that the results of these research efforts will be welcomed by the housewife. Under these circumstances, it is possible to justify the investment in research, people and equipment, and the sizable risk involved in introducing new or improved products. Justification in this case, of course, means that there is a reasonable chance that the investment will ultimately contribute to the profits of the company.

101. This is the reason why virtually all of the innovation in the grocery field originates with the brand manufacturers.

102. Private labels, when they are able to, follow the national brand into new areas of this kind. A price-oriented product finds it difficult to justify substantial investment in growth and progress through marketing and technological research.

The Role of Advertising

103. Since the Institute of Canadian Advertising has presented a brief to the Committee, we will not deal here with the broad aspects of advertising or its function in a dynamic free-enterprise economy, other than to stress once again that advertising is a prime characteristic of any competitive market.

104. Instead we will turn to the specific function of brand advertising in to-day's grocery market. We have discussed the investment in improving existing brand products and in developing new ones. We have also stressed the fact that we do not sell directly to the housewife, but to the grocer, who in a real sense acts as her intermediary but also exerts his own value judgments. Remember too that he is competing actively for the custom of the housewife.

105. It is in this context that our consumer advertising should be viewed. We must keep the housewife constantly informed of the benefits to her of our established products, and make her aware of the advantages to her of our new ones. If we do not, our business—which depends on volume—will become static and ultimately decline. This message you have heard in various forms from the manufacturers who have testified in front of this Committee. It is true of brand manufacturers throughout the grocery industry.

106. With the elaborate system of checks and balances operating throughout this industry, we would believe that advertising by the brand manufacturer directly to the consumer contributes more than any one other single factor to ensuring active competition between manufacturers and grocers for the custom of the housewife.

107. Advertising has frequently been approached in these meetings as a "myth", an "evil", "costly", and a major form of inefficiency in our industry. We strongly reject these views. Advertising, in fact, is an important part of our complex economic system. It developed and grew in a competitive environment. It has played a major part in Canada's continued economic progress.

108. If the Committee desires an economic dissertation and more data on advertising within our industry, we are immediately prepared to co-operate. It is absolutely essential and vital to our industry and our economic system. We respectfully suggest that making arbitrary changes or regulations is a serious mistake which, be decreasing competition, might well have the effect of raising prices to the housewife.

PROMOTIONS

109. Over and above the advertising, however, each manufacturer is constantly competing to directly influence the buying decisions of the housewife as she walks through the grocery store. His aim is to encourage her to give his products a trial in the hope that she will like them and add them to her regular shopping list. He has a number of ways of doing this which are collectively referred to as "promotions". They include co-operative merchandising allowances, case allowances, premiums, samples, cents-off deals, coupons, etc.

110. Every manufacturer uses promotions in one way or another. According to his particular objectives and competitive situation he will constantly vary the mix, increasing some and decreasing others as he finds the housewife likes the special offers he is able to make.

111. This competition at the grocery shelf is a basic requirement of active competition to the benefit of the housewife. For example, the Director of the Combines Investigation Act has expressed his opinion that the disappearance of cents-off deals would have the effect of reducing price competition in the grocery industry. Each of the promotional tools offers something special in its own way, and each is necessary if the forces of competition are to work effectively for the customer.

112. We therefore submit that restriction of these necessary tools will not work to the advantage of the house-wife. We believe that such restriction, by reducing competition at the grocery shelf, would inevitably tend to raise prices to the housewife.

PACKAGING

113. It is thus clear for a grocery manufacturer, everything begins and ends with the housewife. He starts by finding out what she wants; he finishes by offering a product for her to accept or reject. As this is true of products, so it is true of packages.

114. The first function of a package is to protect, and here we have seen great forward strides in recent years. Many of us can remember having to store groceries in tins as soon as they were brought into the home or repack them into containers of various kinds. Little of this is needed with today's moisture-proof, oxygen-proof, hermetic packs. Products can safely be kept around the home for much longer periods than just a few years ago when product deterioration was often a matter of hours.

115. In addition to this, the package has truly been called a manufacturer's only salesman. In these days of self-service, the package must make the product immediately identifiable by the housewife as she passes down the aisle in her store. This is the culmination of all the patient effort, the technological and market research, the advertising and promotions. If the package immediately reminds her of the good taste and high quality which her family rates so highly, it has done its job. She picks it off the shelf.

116. The whole operation started with the housewife, in finding out exactly what she wanted in a product. Thus, she was the one who also decided the sizes in which it should be offered. A large number of different factors go to determine this. In broad terms for instance the size of the family unit is of importance, since the housewife will wish to make up enough for the whole family at one time. Different people have different amounts of storage space, and families use some products more frequently or less frequently and may wish to obtain a confortable week's supply or to take advantage of the economies in unit costs offered by the large size.

117. With a cake mix, the amount needed to fill the regular size cake tins will decide the appropriate package size, and this will vary in weight widely according to the lightness or richness of the cake concerned. Where the products call for the addition of an egg, the amount in the package will be appropriate for either one egg or two eggs since it is difficult to subdivide an egg efficiently. Puddings to be mixed with a cup full of milk will be appropriately packaged, and here again the weight will vary but the size of the helping on the table will be the same.

118. Competition depends on the ability of a number of suppliers to offer similar products under equal conditions for the selection of the housewife. When combined with the above considerations on package sizes, competition will require the presence of a large number of packages on the grocery shelves in order that the specific requirements of as many customers as possible can be met while still giving each customer freedom of choice.

119. Since there are costs involved in this number of packages, it has from time to time been proposed that a simplification or standardization of package sizes would substantially contribute towards a reduction in the cost of food. Our tables in the earlier portion of this brief indicated how little packaged foods have risen in retail price during this period of major inflation—only 3% or 23 cents in 21 months. Nevertheless a number of critics feel that their proposal still has merit.

120. Oddly enough, when you examine the argument, the critics are moving in two completely conflicting directions. On the one hand they call for the packaging of foods in standard non-fractional weights; and on the other hand for reducing the costs of foods by reducing the number of package sizes.

121. Now, standard weights of a quarter-pound, half-pound, a pound and the like are suitable for uniform products in non-rigid containers such as cheese, butter and the like.

122. But in rigid containers such as cans, jars, bottles or cartons, standard weight packages would greatly increase the number of sizes needed. One shell of breakfast cereal has been shown to the Committee as containing, fully charged, six ounces of one product, eleven ounces of a second and fourteen ounces of a third. The answer of course is that the density of product varies widely and packaging lines are set up to handle a very limited number of shell sizes. To put it differently, it is possible to charge far more oatmeal into a container than corn flakes.

123. Our situation in Canada is already difficult even for the large manufacturers, in getting adequately long runs of a particular product on a high speed packaging machine to achieve economical costs. Shut down and changeover are non-productive, time consuming and costly.

124. Standardization of package weights would substantially increase the number of package sizes required. Our exhibits serve to illustrate this fact.

I have here before me a number of cartons, each containing a one half-pound product. Each carton is made with the same bottom dimensions: we have let the height go. They are fully charged.

Co-Chairman Mr. Basford: What are the products?

Mr. Moyes: The products are: Cereal A, cereal B, cereal C; detergent A, detergent B; tapioca pudding; sugar; cake mix B; cake mix A; instant rice.

The same principle is shown applied to cans. We have taken here 12 ounces of a number of known and very regularly served soups. As you can see, the diameters are identical, the heights vary. These are: tomato soup, beef noodle soup, oyster stew, green pea soup, bean with bacon, and chili beef soup. The varying sizes each contain the same weight of product.

125. The production runs on each package size would be proportionately reduced and the costs would go up on existing packaging lines. In addition many new lines would be required together with buildings to handle them. The cost of all this additional expense would be borne by the consumer in the long run.

126. May I at this stage extend an invitation to members of this Committee to visit typical packaging lines and examine the situation for themselves. I will be pleased to make the arrangements for such a visit at your convenience.

127. Standardization of package weights would bear particularly heavily on the small manufacturer, already suffering from unduly short runs, and now threatened by substantial additional capital expenditures for new packaging lines. In addition, it would significantly reduce his ability to compete. One of the strengths of the small manufacturer is his ability to identify the special needs of a particular segment of housewives, and to supply them. This may well consist of a specific package size.

Summary

128. GPMC is a trade association of 82 manufacturers of branded packaged products.

129. In the 21 months ended September 30, 1966, DBS figures indicate that the average family weekly expenditure on food rose by $2.67 or 11 per cent. However, only 23 cents of this increase related to processed foods, indicating an annual growth rate of 1.7 per cent in the price of this category of foods.

130. Farm products, representing just over one-half of the food expenditures at retail level have contributed hearly 80 per cent of the rise in price. Processed foods, representing just over 30 per cent of the food expenditures, have contributed under ten per cent of the rise in prices.

131. The continued growth of manufacturers' brands reflects the housewife's judgment on their value to her. Value judgments reflect questions of flavor, aroma, appearance, convenience, uniformity, reliability, taste and price.

132. Advertising and promotions of all kinds play a vital role in ensuring active competition at the grocery shelf, to the benefit of the housewife.

133. Package sizes are influenced by the convenience of proportions in recipes, by the economics of production and by a number of other factors rather than by the simple factor of weight.

134. Standardization of packages on a basis of weight would involve heavy capital and operating expenses which, in the long run, would have to be borne by the consumer in the form of higher food prices.

135. Packaged convenience foods offer real value in the form of time and effort saved, and, in many cases, in the form of actual financial savings.

136. Committee members are urged to visit a typical packaging plant and discuss "standardized packaging" with experts before the Committee considers any recommendations to Parliament on this subject.

OBJECTS OF GROCERY PRODUCTS MANUFACTURERS OF CANADA

To promote in every legitimate way the welfare of the industries manufacturing products primarily distributed and generally available through grocery outlets in Canada;

To elevate the production and distribution of products primarily distributed and generally available through grocery outlets to the highest plane of efficiency, effectiveness and public service;

To study and organize action on problems common to manufacturers of branded packaged products primarily distributed and generally available through grocery outlets;

To collect and disseminate information and to provide a forum for the exchange of operating experiences on industry matters among members;

To co-operate in cases of common interest with the activities of product organizations formed to meet the problems peculiar to the manufacture, distribution and sale of particular products through grocery outlets;

To work with government agencies in the development and enforcement of laws and regulations protecting the health and welfare of the public and consistent with sound industry practices;

To develop and maintain co-operative working relationships within each segment of the industry responsible for moving "grocery products" from producers to consumers—farmers, other primary producers, brokers, wholesalers, retailers and others;

To establish a public understanding of the efficient line of essential processes and services between raw materials and consumer products.

Aluminum Company of Canada, Limited
American Home Products Corporation
The Andrew Jergens Company, Limited
Appleford Paper Products, Division of the KVP Company Limited
Armstrong Cork Canada Limited
Benson & Hedges (Canada) Ltd.
Bick's of Canada Limited
The Borden Company, Limited
Bovril (Canada) Limited
Brooke Bond Canada Limited
Campbell Soup Company Ltd.
Canada Packers Limited
The Canada Rice Mills Limited
The Canada Starch Company Limited
Canada Vinegars Limited
Canadian Canners Limited
The Canadian Salt Company Limited
Carnation Company Limited
Catelli Food Products, Ltd.
Christie, Brown and Company, Limited
Colgate-Palmolive Limited
Continental Can Company of Canada Limited
The Creamette Company of Canada Limited
Crosby Molasses Company, Limited
Crown Zellerbach Canada Limited
Crush International Limited
Dad's Cookie Co. (Ontario) Limited
Domtar Chemicals Limited, Sifto Salt Division
Dow Chemical of Canada, Limited
The Drackett Company of Canada Ltd.
Eddy Match, Division of Eddy Match Company, Limited
Facelle Company Limited
Fry-Cadbury Ltd.

General Foods, Limited
General Mills Cereals, Ltd.
Gerber Products of Canada, Ltd.
Gorman, Eckert and Company Limited
Green Giant of Canada Limited
H. J. Heinz Company of Canada Ltd.
Hershey Chocolate of Canada Ltd.
Johnson & Johnson Limited
S. C. Johnson and Son, Limited
Kellogg Company of Canada, Limited
Kimberly-Clark of Canada Limited
Kitchens of Sara Lee (Canada) Limited
Kiwi Polish Company of (Canada) Ltd.
Kraft Foods Limited
Lever Brothers Limited
Libby, McNeill & Libby of Canada Limited
Thomas J. Lipton, Limited
McCain Foods Limited
McLarens Foods Limited
McNair Products Co. Limited
Maple Leaf Mills Limited
Mead Johnson of Canada Ltd.
Mother Parker's Tea & Coffee Limited
Mount Royal Rice Mills Limited
Nabisco Foods, Division of Nabisco Limited
National Sea Products Limited
Nestlé (Canada) Ltd.
The Ogilvie Flour Mills Company, Limited
Ovaltine Food Products, Division of The Wander Company of Canada Ltd.
Oxo (Canada) Limited
Pet Milk Canada Ltd.
Pillsbury Canada, Limited
The Procter & Gamble Company of Canada, Limited
Purex Corporation, Ltd.
The Quaker Oats Company of Canada Limited
Ralston Purina of Canada, Limited
Reckitt & Colman (Canada) Limited
Reynolds Aluminum Company of Canada Limited
Robin Hood Flour Mills Limited
The Rowntree Company, Limited
St. Lawrence Starch Company Limited
Salada Foods Ltd.
Scott Paper Limited
Select Food Products Limited
Simoniz Company Limited
Standard Brands Limited
Sun-Rype Products Ltd.
Swift Canadian Co., Limited
Tilbest Foods Limited

Co-Chairman Senator CROLL: We will hear Mr. McCutcheon first.

Mr. MCCUTCHEON: I only have a couple of questions to ask. I refer you to chapter, or verse, 119, where you say "Our tables in the earlier portion of this brief indicated how little packaged foods have risen in retail price during this period of major inflation."

It is the view, then, I take it, of the organization you represent that we are in a period of inflation. Now, there is some discussion and some opinion to the effect that this is not an inflationary time that we are in. I would like your comments on that, please.

Mr. MOYES: Certainly, sir. I am happy to give my view. We are taking the period starting January 1965. We brought it as close to date as possible. At any rate, let us say that in the whole of 1965 and in the early part of 1966 we were clearly, in the view of my association, in a period of inflation. I bow to the experts in what has happened in the last few months.

Mr. MCCUTCHEON: Thank you. I think I heard you correctly, but I would just like you to repeat it: am I correct in assuming that you referred to retail prices when speaking about the price of farm products?

Mr. MOYES: Yes, sir. Everything is retail prices in this submission.

Mr. MCCUTCHEON: According to D.B.S., 41 cents of the consumer dollar goes to the farmer. This includes meat, cereals, and raw materials that your people use, and yet you say that 52.1 per cent of the increase in cost is directly attributable to farm products. The 41 cent figure that the Department of Agriculture uses is on the farm prices, so can we assume from that, then, that this spread between the 41 and the 52.1 has been taken up in some other area of food processing?

Mr. MOYES: Forgive me, sir, but I cannot identify that 52.1 figure.

Mr. MCCUTCHEON: Let us go back to chapter 51. I believe that is where it is.

Mr. MOYES: Oh, I beg your pardon. This is 52.1 per cent of the expenditures at a given time in January of 1965.

Mr. MCCUTCHEON: Yes.

Mr. MOYES: Let me say on this that the definition—may I take you back? This is a little tricky, and I want to make sure that it is not misunderstood. As you so rightly say, farm products include every category here, other than fish. I believe I correctly heard the Department of Agriculture say that farm products are not interpreted as including fish. Under processed foods, farm products are included as a raw material; as they are in "Other foods" and restaurant meals.

Our definition here for farm products is very similar to the one Mr. Williams of the Department of Agriculture gave you, when he was speaking to you after having been recalled and questioned on his powers on packaging. Our definition includes beef, pork and other meats in all forms; dairy products; eggs; poultry; fresh vegetables and fresh fruit.

If I may go just a little further, in paragraph 44 of Exhibit B, you will see the individual breakdown of each of those headings and the amount by which they have increased.

Mr. MCCUTCHEON: We have established two things: you are using retail prices of farm products, not the farm prices. I know that you have been in attendance here and I am sure you heard witnesses say that the retail price of meat was not necessarily related to the availability, production, et cetera, but rather was what the traffic would bear.

Mr. MOYES: I was present on those occasions. I also, although unfortunately I was not present, read with the greatest of interest the latest submission by the Dominion Bureau of Statistics, which showed the prices of farm, wholesale and retail levels in those areas, and I believe that the demonstration showed that it was possible to lay those on top of each other and get virtual identity. This is how it was reported, and I trust this was correct.

However, if I may say so, sir, I am not coming here—to you particularly, since I have sat through so many of these proceedings—as an expert in the area of food prices, pertaining to produce or meat. One thing I have learned in the course of these meetings is that I know very little in those areas. I have come to speak on behalf of the brand product area, which equates in pretty general terms with what we are here describing as processed foods.

Mr. MCCUTCHEON: I think you have done an excellent job of pointing out to us that the foods which your association processes have not increased very much in terms of percentage in relation to other things. I think that is abundantly clear from reading your résumé.

I think at the moment, Mr. Chairman, I would like to pass.

Mr. MOYES: With your permission, sir, there was a comparison made as you were starting to investigate the difference between 52.1 per cent and some other figure which had already been submitted. I would believe that they do not relate to each other. I did not thoroughly understand it, but it is not my intention to lay one against the other.

Co-Chairman Senator CROLL: We will get into that a little later, perhaps. We will hear now from Senator Inman.

Senator INMAN: First of all, I would like to thank the witness, Mr. Chairman, for very kindly getting the information I requested this morning.

I was in the station in Moncton the other day and I had two hours to wait around and I bought this package of Life Savers. Up to two weeks ago Life Savers sold for six cents each. Now they sell for 10 cents each. Four cents seems to be a big jump on such a little thing like that.

Mr. McCutcheon: Perhaps they are in short supply.

Some hon. Member: Maybe they are.

Co-Chairman Senator Croll: Order, please.

Senator Inman: I just wondered if there could be any explanation for this difference. Has sugar gone up in price, by the way, or has peppermint flavouring?

Mr. Moyes: I am afraid I have no knowledge of that specific product. I regret that the company concerned is not a member, but, seriously, I have no information on that.

Senator Inman: This is manufactured in Hamilton, Ontario.

Co-Chairman Senator Croll: What is the name of the firm?

Mr. Smith: Life Savers Limited, Hamilton, Ontario.

Senator Inman: That is all, thank you.

Co-Chairman Senator Croll: We have had more letters about those Life Savers than we have had about anything else. Every time we get an inquiry we get a three-letter response, and they are still at 10 cents.

Senator Inman: They tell me that they only went up to 10 cents three weeks ago.

Co-Chairman Senator Croll: I understood that it was some time ago. Have you any other questions, Senator Inman?

Senator Inman: No.

Senator O'Leary (*Antigonish-Guysborough*): Mr. Moyes, you continually keep repeating here that these farm products require little or no processing. This is not substantially correct.

Mr. Moyes: This is only in relative terms, sir.

Senator O'Leary (*Antigonish-Guysborough*): I cannot quite accept the comparison you make here. I realize you want to make a point, and you have made it well. But your definition of processed foods and farm products, I cannot agree with them. Where are you going to include the smoked meats, for example?

Mr. Moyes: They come under the head of farm products.

Senator O'Leary (*Antigonish-Guysborough*): But that is processing and packaging. Butter, eggs—we have been given some of the costs of these things.

Mr. Moyes: By comparison, if I may say, with a cake mix where there are so many different degrees of processing involved. Perhaps the easiest way I might take a look at this is by reading into the record the farmer's share of the consumer dollars on some of these things. This, perhaps, is the difference between the two. This is not truly reading it into the record because it has already been filed with you by Mr. S. B. Williams, Assistant Deputy Minister of Agriculture, in volume 6 of your proceedings. These are for 1965: fluid milk, 53.2 per cent; cheese, 36.3 per cent; evaporated milk, 37.3 per cent ; fresh apples, 26.2 per cent; wheat-flour, 30.0 per cent; potatoes, 49.7 per cent.

In comparison with the figures which Mr. McCutcheon was putting in for the overall component of farm products in the food bill, these are clearly higher, and we are not trying to say anything more than that.

Co-Chairman Senator Croll: Mr. Allmand.

Mr. Allmand: The only question I have is with regard to dimensions of packages. Is it impossible to have certain standard size packages, but not necessarily fill them all to the top? Right now they are not all filled up to the top.

Some witnesses brought in packages of detergent and cereals and there was room in them. I presume in these examples you have prepared you have filled them right up?

Mr. MOYES: There will be some room at the top. As I think you have already heard the business of slack-fill is carefully controlled by Government.

Mr. ALLMAND: Not in all products.

Mr. MOYES: Let me say that all foods are.

Mr. ALLMAND: Cereals?

Mr. MOYES: Yes, indeed.

Mr. ALLMAND: The amount of cereal in a package is controlled by Government?

Mr. MOYES: No, the amount or the size of the package in relation to its content. If you get beyond a certain amount of slack-fill you render yourself open to prosecution.

Mr. ALLMAND: But that was with soap and detergent.

Mr. MOYES: And with breakfast cereals. Everything is packed fully at the time and tests are carried out to see what happens in the way of settling in the period of time until they appear on the grocer's shelf. If you will concede the matter of slack-fill it might be possible. But are you not making it even more confusing to the housewife than it is at the moment?

Mr. ALLMAND: I am just asking the question. You say if we were to accept some discrepancy in the fill—what did you call it, slack-fill?

Mr. MOYES: That is the term.

Mr. ALLMAND: We might possibly have three sizes of packages with different weights, but there may be other side effects which may not be desirable. Is that what you are saying?

Mr. MOYES: I think so.

Mr. ALLMAND: With respect to canned foods, is it necessary to fill the can right up to protect the food against damage?

Mr. MOYES: No, sir, it cannot be filled right up. Again you will always find a small amount of head space. I am sorry for introducing so many technical phrases. But since the products are retorted, that is subjected to heat after the lid is placed in position, there must be enough room for the expansion. This has been carefully specified by the Department of Agriculture as to how much head space may be left in. This has been discussed by a couple of witnesses before you previously and the housewife does in fact have a fairly accurate idea in most sizes as to the amount of the product. She does not have to have a computer or slide rule and she does not work down to eight places of decimals, but she does compare one with another. The basic principle on which Food and Drugs and Agriculture work is that they have always accepted that the apparent size of the package must be as close to its contents as technically possible.

Mr. ALLMAND: Why do you have the canned foods in weighted tins? Because the regulations are there that there shall be fluid ounces for canned food?

Mr. MOYES: I understand the Committee was interested in the possibility of standardized weights. As it applies in packaged goods, it applies in the same way in soaps.

Mr. ALLMAND: Well, I thought that was the case too, but the regulation is that canned foods and vegetables shall be stated in fluid ounces whereas packaged foods are according to weight.

Mr. Moyes: That's right. It has been found impossible to standardize by weight and volume has had to be accepted rather than weight.

Mr. Allmand: And they are standardized on fluid ounces?

Mr. Moyes: The implication which I was reading into the record was that the volume description is not a satisfactory way of comparing one product with another and that it was necessary to get to a price per ounce basis.

Mr. Allmand: But wouldn't it still be possible to eliminate fractions and odd sizes, and let us say, at least, get them into full ounces or multiple sizes?

Mr. Moyes: Your multiple sizes do run to a number of permitted weights, and each time you run a permitted weight you get at this according to the density of your product. If you have six acceptable permitted weights, you get six times that amount.

Mr. Allmand: Would your Association object to that? For example, eliminating fractions and odd sizes and a lot of multiples. Would they object to sticking to the three of four sizes they have now by eliminating the fractions one way or another and getting into multiples?

Mr. Moyes: This is eliminating the idea of standardization of weights?

Mr. Allmand: I am questioning the alternative now. Another proposal might be to outlaw fractions and try to make it easier for a consumer.

Mr. Moyes: You are away from weight now and you are onto volume?

Mr. Allmand: No, I am on weight.

Mr. Moyes: I don't think that is possible. The volume of a can is standard in the number of fluid ounces.

Mr. Allmand: I am getting mixed up here, and maybe it is my fault. Talking about packaged foods, why could you not eliminate fractions to begin with, like 13¾ ounces in detergents and cereals?

Mr. Moyes: As long as you accept the principle of slack-fill, I think it can be done.

Co-Chairman Senator Croll: Senator McDonald.

Senator McDonald (*Moosomin*): Could I just carry on where Mr. Allmand left off. Surely a part of an ounce even in a very loosely packed material would not take that much room. For example one third or two thirds of an ounce would not affect it very much? Would it? Let us talk about corn flakes, which are a very fluffy, light product. How much volume would an ounce of corn flakes fill?

Mr. Moyes: Again, sir, I hope I am not evading your question. If I am, please tell me.

Senator McDonald (*Moosomin*): No.

Mr. Moyes: It has always been fundamental to the concept of non-deceptive packaging that you must fill to the limit you possibly can. Within the technical capabilities of the individual product, you must fill as close as you can. Other than that you would be deceiving the housewife. You were shown, for instance, one shell of cereal products, and when you fill it with various types of cereals it comes out to different amounts. This has a direct relationship to what I am saying. I hope I am answering your question.

Senator McDonald (*Moosomin*): I can quite see you could not have—and I think you used the expression in your brief—oatmeal and cornflakes in the same size package. They are not comparable.

Mr. Moyes: Yes.

Senator McDONALD (*Moosomin*): But it seems to me that a package of cornflakes could contain 20 ounces instead of 20¼ ounces.

Mr. MOYES: You have to accept the principle of slack fill. If you will accept that principle of slack fill, I do not see immediately any difficulty.

Senator McDONALD (*Moosomin*): I want to go back to the question Senator O'Leary (*Antigonish-Guysborough*) was asking you when you talked about these being products which require little or no processing. Then you were comparing cake mixes and potatoes. Again, I do not think there is any comparison, but I think you could compare cake mixes with instant potatoes. Surely, there is a lot of processing goes into instant potatoes.

Mr. MOYES: Yes.

Senator McDONALD (*Moosomin*): Would there not be a similar amount to cake mixes?

Mr. MOYES: Instant potatoes—just let me check—would they come under the heading of "processed foods?"

Mr. S. Roxan, Statistician, Grocery Products Manufacturers of Canada: Yes, I think so.

Senator McDONALD: I have chosen a bad example too. Let us think of a can of meat—Klink, Spam or this sort of thing. Where do they fall, in your classification?

Mr. MOYES: They are a portion of the "farm products"—a relatively small portion, but a portion.

Senator McDONALD: Is there not a lof of processing required to produce canned meat? I am talking of Klik, Spam, Spork and all the rest of them.

Mr. MOYES: Perhaps it might be helpful if I read in—and this would directly relate to our Exhibit B again, the big and complicated table on paragraph 44—some of the processed items which do, in fact, fall into this "farm products" category. We recognized this was a problem, that breaking these categories down was going to present a problem, so we had a look at those. For instance, under the heading of pork in the same period of January, 1965 to September, 1966, pork sausages accounted for 4.4 cents of the rise, bacon—and I know you have heard a very great deal about bacon ever since this committee started—accounted for 15.2 cents; weiners for 2.0 cents. I apologize, but I do not have the luncheon meats, but they are a small proportion.

Senator O'LEARY (*Antigonish-Guysborough*): Are they included in the "other meats"?

Mr. MOYES: Yes.

Senator O'LEARY (*Antigonish-Guysborough*): All the items such as leg of lamb, loin veal chops and weiners are included in those?

Mr. MOYES: Yes.

Senator O'LEARY (*Antigonish-Guysborough*): May I point out something here? Going back to my point and the one Senator McDonald has followed up with now, this term "processing" is very wrong, from my point of view. For example, take bacon and ham as opposed to the fresh cuts of pork. I have in front of me here the D.B.S. figures for July, 1965 versus July, 1966. I see, for example, the fresh pork cuts, had a 5½ to 6 cents a pound increase. On the other hand, your smoked or processed goods, 7.9 cents a package—that is at that time, and imagine how much it was in September—and 19.1 cents a pound on

processed hams. So the processed products certainly have taken a greater advance, if these figures are correct, compared to the ones you state require very little processing.

Senator McDonald: I want to go back to this comment of "no processing".

Mr. Moyes: Little processing.

Senator McDonald: I cannot agree with that. I maintain with regard to the products you were talking about that in the case of a good percentage of them there is far more processing goes into them than into a cake mix. I do not know anything about making cake mixes, but I imagine there are several ingredients that go into some sort of mixer, and in the end product you get one ton or 10 tons of cake mix, that goes into boxes and is distributed all across Canada. But if you were going to buy a T-bone steak, each one is processed by itself. You do not make three, ten, or a million of them in one batch. Every steak has to be made by hand, individually, in the butcher's shop or the processor's or some place along the line. I think, for instance, in the case of fresh meat your cost of processing is much greater than in many products which would be packaged in the demonstrations we have here. I am glad that you have pointed out that this increase of 80 per cent is in the retail price, because previous witnesses, as you have told us, have indicated to us that some farm products have increased quite drastically in the last year or year and a half, but they have not increased anywhere near 80 per cent, and I think the major increases have come at the processing level and not at the farm level.

Mr. Moyes: It is 16.6 per cent, not 80 per cent.

Senator McDonald: I am sorry.

Mr. Moyes: This is an ambiguity in my presentation of this. It is 16.6 per cent.

Senator McDonald: Would you agree with me though that there is a lot of processing that goes into especially meat products?

Mr. Moyes: Yes.

Senator McDonald: It is very expensive processing in that it is individual: every steak, every chop, every roast is individually cut and packaged by hand, I think.

Mr. Moyes: I think, if I may make a comment on that one, the figures given on the farm retail price spread show that the farmer got 57 per cent of the consumer dollar in beef. This would be higher than his percentage in—perhaps we should be calling these "packaged groceries". This was our intention. As a matter of fact, at a late stage in the drafting of this brief we realized we would be much clearer to use "packaged groceries" instead of "processed foods". Unfortunately, it was at a stage when it was difficult to back track—in those areas are the heavy brands, the heavy advertising, and the like.

Mrs. MacInnis: Mr. Chairman, I welcome this very businesslike and clear presentation. I do not think there is very much excess verbiage in it, and I think it is an excellent brief.

Mr. Moyes: Thank you very much.

Mrs. MacInnis: We had before us the other day a representative group of consumers—I believe the only consumer organization we have had so far—the C.A.C. I think it might be legitimate to do a little questioning based on some points they put before us.

Co-Chairman Senator Croll: Sure.

Mrs. MacInnis: I would like to do that.

You mentioned in your paragraph 9 that in 1965—and then I quote, "we spent only 20.3 per cent of our disposable income on food." You were talking about average Canadian families?

Mr. MOYES: Yes.

Mrs. MACINNIS: Your average Canadian family, as I understand it, ranged from two adults, to a family of two adults and four children?

Mr. MOYES: Yes.

Mrs. MACINNIS: And it ranged from $3,000 in income to $7,500?

Mr. MOYES: Yes.

Mrs. MACINNIS: The C.A.C., the Canadian Association of Consumers, on page 11 of their brief referred to a recent study by the Canadian Welfare Council which noted that in 1965 low income families had to spend 43 per cent of their incomes on food—I will leave out housing.

The point is this, that the low income families—and I presume they are families whose incomes are below the government's poverty figure of $3,000—spend twice as much of their income on food as do the families with the average income. Would you agree with the Consumers' Association of Canada which said that the rise in prices has fallen on these different groups in such a way as to erode the incomes of the low income and the fixed income groups?

Mr. MOYES: Unfortunately, one of the problems that we seem not to have beaten yet—and I have been very interested in the moves which many of the parties in the house have been taking on this—is how we can grow and raise our standard of living, and still keep an equitable distribution of income. This is a problem that we simply have not beaten yet.

Mrs. MACINNIS: You have not, as an association or personally, given thought as to how the incidence of this price rise could be met—how the incomes of the lowest income people could be made to cover anything like the diet that they covered before the price rise?

Mr. MOYES: Again, in that same presentation of the Consumers' Association of Canada, they recommended that this should, in fact, be tackled through a revision of the income tax allowances and the tax structure in this country. That may be a very good way of doing it. It is a major problem.

Mrs. MACINNIS: They did that, but I would like to invite your comment on a quotation which they give at page 14 of their brief, and taken from the report of the U.S. National Commission for Food Marketing:

> The high costs occasioned in some parts of the food industry by intensive promotion, superficial proliferation, and expensive distribution methods—all tracing back to the incentive to influence the consumer —were the principal shortcoming the Food Commission found in the industry's efficiency . . .
>
> More than two billion dollars is spent annually in advertising food.
>
> In an extreme case, breakfast cereals, about one-fifth of the money the consumer spends goes to pay the cost of persuading her to buy a particular brand rather than another and to buy it in a particular store rather than in the one a block or two away.

What comments would you have to make on that finding of the U.S. National Commission for Food Marketing?

Mr. MOYES: I think I would just look at that breakdown there—23 cents out of $2.67. That is the area in which practically—with Senator McDonald's permission—all advertising is taking place, it shows that these products are not a contributing factor in the rise in the cost of living.

Mrs. MacINNIS; You have either one of two things. You would say conditions are different in the United States, or you would question the validity of the American commission's figures?

Mr. MOYES: Let me say this, that the American commission did not go back to the basic statement of the weekly grocery bill. I think as a result of this that perhaps they lost their clear understanding of the relative magnitude of the factors involved. This, again, is a very personal comment, but during the time I have spent here I have discovered that as people threw more and more indices and growth rates at me—a 10 per cent rise, a 7.5 per cent rise, the index going from 117 to 123—I began to totally lose my relationships. This is why we endeavoured to get down to a simple statement of how many dollars and how many cents went to make up the grocery bill in January, 1965 and in September, 1966. As soon as you look at this I think—to me, at any rate, this is true—the whole thing starts becoming clear and in perspective.

Mrs. MACINNIS: Well, you do not put anything there—there is no share there for packaging or advertising or the other things that have made the weekly grocery bill rise.

Mr. MOYES: The whole thing is 23 cents total. As an analogy of this one, I believe in many cases—certainly where I am getting my cups of coffee I find I am now paying 15 cents instead of 10 cents. The rise has been equivalent to the rise in the cost of five cups of coffee a week.

Mrs. MACINNIS: There is one more thing I would like to ask you. At page 5 of the appendix to the brief of the Consumers' Association of Caanda—and Mr. Basford raised this on another occasion a few days ago—the C.A.C. says:

> Second, we have now had three reports from careful and knowledgeable people suggesting that food retailers know the items in the D.B.S. food price index, and keep prices low on these, making up the loss elsewhere.

What would be your comment on that?

Mr. MOYES: I would make two comments on that one. Firstly, I know the items in the D.B.S. price index. That is one of the very early things I did when the committee got under way, and I did it so that I could more fully understand the figures that were given to us, and the basis for this investigation. I did ask for, and I did receive from the D.B.S., a list of those items. That is a public document, and it is freely available. If it is suggested that the retailers over the course of the months from, for instance, January, 1965 to September, 1966 were manipulating price indexes then I am afraid I have to say that they must have been doing a very poor job.

Mrs. MACINNIS: The suggestion here is specifically that they tried to keep the items in the index low in cost, and then increase the prices on the other things.

Mr. MOYES: A 7.5 per cent increase is not a low increase, in my estimation.

Co-Chairman Mr. BASFORD: I might say, Mrs. MacInnis, that I examined one report that was given to me, and it did not prove to me what it was alleged to prove.

Mrs. MACINNIS: I just wanted to see if you had any more information.

Mr. MOYES: As I investigate these figures, and go through the statement of the grocery bill, it seems to me that the D.B.S. figures provide a very good and reliable method of getting a true picture. It is extremely difficult to get a true picture. I have a great deal of confidence in them, because they seem to fit in with all the information I have.

Mrs. MacInnis: I think I said that that was my last question, but I do have one more. Do you think that modern food habits indicate that there should be a different kind of D.B.S. index made? Should there be different components in the food index now?

Mr. Moyes: I will say that the investigations into the average urban family food expenditures—the figures with respect to which we were quoting, and using as the basis for our giving the dollars and cents—are carried out at frequent intervals. I think the D.B.S. is hoping to do another one very soon. The last one was made four years ago in 1962. They surveyed all of these 1,841 families. They surveyed what the families were actually spending on food. They did not say to them: "There is a standard grocery basket for 1949. What is it costing you now?"; they said: "Regardless of whether you are spending your money this way, and regardless of whether you are taking your wife out four times a week to eat in a restaurant, what actually are you spending on food?" I think that as soon as they get the new figures they will use them to re-calculate forward their index. I believe that that meets the point you are making.

Mrs. MacInnis: No, I was asking you if you thought there should be different items in the food index.

Mr. Moyes: No, it includes everything they buy.

Mr. Roxan: This is a list of the items that were added to the coverage of the food index. These are mainly food, but there are just a few other items here. This was following the 1957 survey. These items at the bottom were the ones that were deleted. In other words, adjustments were made following that survey in order to bring the index in line with consumer buying habits, and this is the basic purpose of the surveys. As Mr. Moyes said, they hope to carry out another one soon.

Co-Chairman Senator Croll: The last one was in 1957?

Mr. Roxan: Yes, in 1957. There have been two surveys done since—one in 1959, and the one which we have used in 1962. The last one was published only last December. I know the D.B.S. suffers from severe staff shortages, but perhaps they could be encouraged to speed up their process whereby they shorten the time lag between the taking of the surveys and the incorporation of the information into the food index.

Mr. Whelan: Mr. Chairman, I want to go back to paragraph 27, which has been mentioned so often, and I want to state, if I may, that I agree with what Senator McDonald has said. How can you class farm products, which include beef, pork and other meats in all forms, as other than processed. If I were not so familiar with the meat processing and packing plants, or whatever you want to call them, then perhaps I could agree with this, but some of the meat products are considerably more processed than your vegetables are.

Mr. Moyes: Some are sir. I hope I made that clear in the early stages, and I have put on the record the increase in the cost of living in those specific items as far as I was able to do so.

Mr. Whelan: You do not make it clear in the brief that this 80 per cent increase in farm products does not go to the farmer.

Mr. Moyes: May I say two things to that if you will allow me. One of them is that in fact I agree entirely that interpretation would be a wrong one. Secondly, however, I am very pleased to see there has been an increase in farm income, because it has been clear from the information filed with this committee already that the farmer has been lagging in the growth which has taken place elsewhere in the economy, and the farmer is now picking up that growth.

Mr. WHELAN: I will agree with that rather slowly, that he is picking up a little bit. In paragraph 35 you say, "These are the products which carry few national brand names." Now we can go back to meat products again. I am wondering how erroneous or false an impression is given about your canned meats which have all brand names in the newspapers and everywhere else.

Mr. MOYES: Generally, and without wanting to be categorical on this one, your sirloin steaks and various cuts, produce of all kinds, do not tend to be branded as such, to be identified. There are some exceptions but those other items are by far the largest proportion and you have had the porportions quoted to you. May I also say that this takes us back into Exhibit B, paragraph 44 and if you look under the heading of fresh vegetables, under "Farm Products", you will find that in the period from January 1965 to September 1966 fresh vegetables only contributed one cent to the increase in the cost of living.

Mr. WHELAN: You do not really have to tell me that. I am already aware of it, because I come from the greatest vegetable producing area in the country.

Co-Chairman Senator CROLL: That is why he told it to you.

Mr. WHELAN: You use the figure of 80 per cent. You referred to fresh vegetables and fresh fruit. Are you talking of imported fruit and vegetables?

Mr. MOYES: I am merely taking the retail prices on the shelves, and as far as I know they do not differentiate.

Mr. WHELAN: In paragraph 35 you say;

> These are the products where governmental control is greatest; where the traditional contact is directly between the primary producer or his representative in the form of a marketing board,...

But I do not know any marketing board in the whole of Canada that beef comes under; and only one province has a hog marketing board, and that is the Province of Ontario.

Mr. MOYES: You can tell what province I come from yes. I apologise.

Mr. WHELAN: It gives an entirely wrong impression, Mr. Chairman, that this has anything to do with it. You go on, in paragraph 37, and point out how the processed foods have not caused a tremendous increase to the Canadian family's food bill, and in paragraph 39 you continue to use a 21 month period for figuring out your statistics. Why do you use that?

Mr. MOYES: Well, I followed the interests of the committee, the time period of the committee, in looking particularly at the period from January 1965 onwards as being the period of maximum growth, the one where we were very concerned and had to come up with answers for. The September 1966 figure is the latest for which there are breakdown figures. If I had been able to go closer to date I would have done so. There is no other significance.

Mr. WHELAN: The only thing I say about a 21 month period is that the ordinary person figures out his income whether he is a farmer or a businessman, on a 12 month basis, and when he looks at this 21 month period he is confused.

Mr. MOYES: Exactly.

Mr. WHELAN: Now referring to paragraph 54, I just want to point out what I have said before about processed foods which are under marketing boards more than what they call so-called farm products. Again, the consumer is getting the best deal and so is the primary producer.

Mr. MOYES: Yes, I am sorry. It certainly was no part of my intention to say that where these farm products were going into processed foods they were not handled by marketing boards. They are indeed, and I completely accept it.

Mr. WHELAN: One more thing, Mr. Chairman, I have to go to another meeting right now, but I did some checking with other committees in the noon hour, and was looking at some of the big books they have printed, and looking at the size of this Firestone Report, it is not out of line with any of those printed there.

Co-Chairman Senator CROLL: We have a great many other reports which have to be looked at. At the same time, we are going to be sitting after the first of the year, and you do not know what else is likely to come out.

Mr. SMITH: I think, Mr. Chairman, in line with what Mr. Whelan has said, that we should look seriously at the Firestone Report. The work that Firestone has done is going to be of great use to universities and people throughout Canada. I think it is one of the best expenditures we would have made on this committee, to have it printed as a separate appendix to our hearings.

Co-Chairman Senator CROLL: Maybe it is worthwhile, and we will look at it.

Senator McDONALD: If that is a motion, Mr. Chairman, I will vote for it.

Co-Chairman Senator CROLL: Not now; we will attend to it.

Mr. McCUTCHEON: I have a question in one sentence, Mr. Chairman. Mr. Moyes, we have had a little discussion about retail level and wholesale level with reference to farm products. Would you turn to paragraph 130. I would like to take this brief with me and believe that it is factual and straightforward all the way through. In paragraph 130 you say, "Farm products, representing just over one half of the food expenditures, have contributed nearly 80 per cent of the rise in price." I wonder if we might insert in there, "At the retail level."

Mr. MOYES: Yes, by all means, sir. I think that is a highly desirable change to make.

Co-Chairman Senator CROLL: Then those words will be incorporated in paragraph 130. Mr. O'Keefe?

Mr. O'KEEFE: Mr. Chairman, I read this brief with a good deal of interest last night. It seems that the whole brief is based on averages, percentages, the average Canadian family. Is there such a thing as an average Canadian family, in your opinion?

Mr. MOYES: No, sir, I would not imagine so.

Mr. O'KEEFE: There is no such thing?

Mr. MOYES: It is the only practical way for a government department such as Dominion Bureau of Statistics to keep tabs on relative changes of what is happening in Canada. It is a basic way of doing it. You can do additional work, yes.

Mr. O'KEEFE: It is very basic, and very often incorrect, certainly something incomplete.

Mr. MOYES: Are you asking me to accept the incorrect and incomplete?

Mr. O'KEEFE: Yes.

Mr. MOYES: No, sir, I don't.

Mr. O'KEEFE: In paragraph 8 you say:

> The latest figures we have for the average hourly wage in manufacturing industries relate to May of this year. In those terms, a man would have had to work for 7.7 minutes in 1961 in order to buy a quart of milk; last May he would have had to work 7.02 minutes.

Now, in the manufacturing industries does the average hourly wage include the managers, directors and highly paid officials?

Mr. MOYES: No, sir, that is not an hourly wage.

Mr. O'KEEFE: If in effect you had done this and included those higher salaries, that would be a very different picture altogether, would it not?

Mr. MOYES: It would make food cheaper, yes, sir.

Mr. O'KEEFE: Paragraph 8 goes on to day:

> A twenty-four ounce loaf of bread demanded 7.8 minutes in 1961 and 7.5 minutes in 1966.

Every woman and man in this room knows that the price of bread has advanced out of proportion to those figures. How do you reconcile those figures?

Mr. MOYES: As far as I am able to speak in this area of bread, may I remind you of the rise in incomes. Perhaps this is the time to put in some more of the brief, which Mrs. MacInnis was just quoting, from the Consumers' Association. There were some very striking figures there. It stated these were in every case for the first half of 1966 compared to the first half of 1965. In paragraph 9 they state that personal income rose in that period 11 per cent. If you take that back on to the gross national product, to get true personal income per capita, you are up 9.2 per cent. I am still on the same paragraph.

Here is the real striking fact on this, and I think it relates directly to your question, Mr. O'Keefe. In that same period, real income, when you have made all the adjustments for rises in price, was 5.4 per cent up, the first six months of this year as against the first six months of last year, with all price increases allowed for, spreading it totally, spreading all income straight across against gross national product. Subject to what Mr. Roxan may say to me, I think this is a fair measure of the way the standard of living has gone up, even in a time like this, when we are 5.4 per cent up.

Mr. O'KEEFE: Would you agree that in some areas wages have actually fallen?

Mr. MOYES: I do not speak from personal knowledge—I do not know.

Mr. O'KEEFE: If this is possible, doesn't this cut the ground from under your feet?

Mr. MOYES: We can, in a committee of this kind, I think, deal only in relatively broad strokes—can't we, sir?

Mr. O'KEEFE: I will leave that for somebody else to pursue. On canned fruits, you suggest there has been a decrease in the price. Can you give one example of canned fruits being lower now than in the 21-months period?

Mr. MOYES: I do not believe I can. Can you add anything, Mr. Roxan? We can quote you the exact figures involved in that, from the D.B.S.

Mr. O'KEEFE: Going down in price?

Mr. MOYES: Yes, generally. It is marginal. You can expect it. This was implicit in what Mr. Whelan was saying to us, that there are certain snags in taking the 21-month period. By the time you have got to September, your new season's pack is starting to come through.

Mr. O'KEEFE: What about the Canadian family earning less than $3,000 a year? How does your brief affect those statistically?

Mr. MOYES: Once again, the D.B.S. in aiming to paint a picture of Canada, has taken not only sample families but sample incomes. As I said, I think it was to Mrs. MacInnis earlier, this problem of how to create and maintain reasonable distribution of incomes is something which is beating the best brains of every government in the world. I was very interested in what Professor Kragh said in

relation to Sweden, where they took the step, if I quote him correctly, of relating pensions—Government pensions, at any rate—and allowances directly to the cost of living.

Mrs. MacInnis: And productivity.

Mr. Moyes: And productivity. There are many governmental approaches to this, but it is a problem on a national scale and I would think it is one that no one in the world has yet beaten.

Mr. O'Keefe: Does your association have any voice or decision in relation to the production of new packages?

Mr. Moyes: Each individual member does.

Co-Chairman Senator Croll: Not the organization.

Mr. O'Keefe: Have you any opinion on the amount of an item like soap or soap products—having too many or not enough?

Mr. Moyes: As they move off the shelf—there is enough.

Co-Chairman Senator Croll: What do you want? Do you want him to toss up his job?

Mr. Smith: Looking at the list of your member organizations, I see you have a wide range of companies which use all kinds of merchandising techniques, free coupons, cents-off, and so forth. The cents-off policy has been one of the most constant items of criticism by my wife and by organizations here. Have you ever done anything as an organization to attempt to bring order to this matter, to eliminate the practice of cents-off selling?

Mr. Moyes: Let us say, to study the situation, to discuss it and establish the facts on it—we have attempted to do this, yes.

Mr. Smith: You have. With what results?

Mr. Moyes: Before we were able to take any move of this kind it was necessary to check the legality of any kind of discussion of this kind. We did this. I discussed it with the director of investigation and research of the Combines Investigation Branch, under whose department this falls. He advised me that, in his view, the disappearance of the cents-off label would reduce price competition in the grocery industry; since it would have that effect, it would in fact be reducing competition generally; and that I was therefore not permitted, nor we as an association were not permitted, to discuss this subject.

Co-Chairman Senator Croll: Did you convey that information to your members?

Mr. Moyes: Yes sir.

Co-Chairman Senator Croll: How is it that they did not comment on that when they appeared before us. Not one of them said it. Colgate was here. Other people in the detergent business were asked. General Foods and others were here. How is it none of these ever said that to us, if you had conveyed that information to them?

Mr. O'Keefe: They have not got the word yet.

Mr. Moyes: This was over a year ago.

Co-Chairman Senator Croll: Do you know anything about co-operative advertising?

Mr. Moyes: I know something about it.

Co-Chairman Senator Croll: How many of your organizations that appear in this list contribute to co-operative advertising in chain stores?

Mr. MOYES: Almost all of them.

Co-Chairman Senator CROLL: Almost all of them?

Mr. MOYES: Yes sir.

Co-Chairman Senator CROLL: Do you know any that don't? Give me the name of one or two that don't?

Mr. MOYES: I do not know any that don't. I would have to put it that way.

Co-Chairman Senator CROLL: Campbell Soup?

Mr. MOYES: I have heard this stated.

Co-Chairman Senator CROLL: You have heard what stated?

Mr. MOYES: I have heard it stated that Campbell's Soup does not give co-operative advertising.

Co-Chairman Senator CROLL: You have heard it stated? Have you heard from Campbell's Soup?

Mr. MOYES: No, sir.

Co-Chairman Senator CROLL: Have you ever asked?

Mr. MOYES: No, sir. I am very careful not to ask.

Co-Chairman Senator CROLL: You say they do contribute to advertising?

Mr. MOYES: Co-operative merchandising allowances.

Co-Chairman Senator CROLL: They do?

Mr. MOYES: My members do, as a generality. Is that your question?

Co-Chairman Senator CROLL: Yes.

Mr. MOYES: Yes.

Co-Chairman Senator CROLL: Do you know whether they buy any space in the newspaper advertisements of the various chain stores?

Mr. MOYES: You have heard quite a lot in the course of these proceedings on what is the pattern of co-operative merchandising, a package which is offered by retailers. One component of this package is placing advertising in newspapers, and as such in buying a package they are buying advertising in newspapers.

Co-Chairman Senator CROLL: Loblaws say they do not sell any space in the newspaper advertisements. They pay for it themselves.

Mr. MOYES: Both statements are of course true.

Co-Chairman Senator CROLL: How do both statements become true?

Mr. MOYES: When you see Loblaw's advertisements, they will contain named brand products. However, the space is bought by Loblaw's and the advertisements are designed by Loblaw's. There is no component of the cost of a package, as I understand it, which would be attributable to the newspaper advertising.

Co-Chairman Senator CROLL: How does that apply to other chain stores?

Mr. MOYES: I believe this would be generally true, sir.

Co-Chairman Senator CROLL: Make it clear, that where Loblaw's or any of the others advertise their own products they pay for it themselves, is that correct?

Mr. MOYES: I am sorry. Was that your question?

Co-Chairman Senator CROLL: Yes.

Mr. MOYES: I was wondering whether it was the national brands—

Co-Chairman Senator CROLL: I am talking about Loblaw's advertising. I asked you if they sold space in their newspaper advertisements. I understood you to say yes.

Mr. MOYES: What I said, sir, was that listing in the newspaper advertisements, is included in a promotion package.

Co-Chairman Senator CROLL: Loblaws tell us they do not: "We would advise you that we do not sell space in our newspaper ads."

Mr. MOYES: As space, no.

Co-Chairman Senator CROLL: Well, now, look. That was my question. Those were the words I used. Loblaws say they do not. Now, let us see what Steinberg says, but first what practice do you say Steinberg's follow?

Mr. MOYES: The same practice that I described before. The package consists of a variety of merchandising and advertising services.

Co-Chairman Senator CROLL: Yes?

Mr. MOYES: And has a single price attached to it.

Co-Chairman Senator CROLL: Are you saying, in effect that a Steinberg's ad, for instance, which has in it coffee and tomato juice and other things, is paid for in part by the suppliers?

Mr. MOYES: The national brands suppliers?

Co-Chairman Senator CROLL: Tomato juice, Australian brand, or Cream-O instant pure coffee. Are those paid for by suppliers?

Mr. MOYES: It is impossible to say definitely, sir, because the chains themselves may put them in without charge, but in many cases this would be a part of the promotion package that they have bought.

Co-Chairman Senator CROLL: Well, Ogilvie Oats is a national brand.

Mr. MOYES: Yes, sir.

Co-Chairman Senator CROLL: Would you be surprised, if I told you that the suppliers do not pay Steinbergs for that?

Mr. MOYES: No, sir. It is possible that it happens either way. The retailer has complete freedom of choice.

Co-Chairman Senator CROLL: There is just no policy on it?

Mr. MOYES: I am not aware in detail of retailer policy here.

Co-Chairman Senator CROLL: It happens just any way, does it? You say it can happen either one way or the other.

Mr. MOYES: I would think this is the competitive system between retailers working its way out.

Co-Chairman Senator CROLL: All right. Go ahead, Mr. Basford.

Co-Chairman Mr. BASFORD: Well, I think you were here this morning, Mr. Moyes.

Mr. MOYES: Yes, I was.

Co-Chairman Mr. BASFORD: I asked the wrong people this morning about the recommendation of the royal commission in 1959, which said that:

> We recommend that the Association of Canadian Advertisers, in co-operation with the Food Industry, be requested to draw up and administer a code of ethics designed to guide food advertisers generally and particularly to reduce misleading advertising.

Now, you are the food industry, and I was wondering what has happened to that recommendation.

Mr. MOYES: It is my understanding, sir, and I hope I am understanding the situation rightly, that this report was filed with the Government for its consideration. To the best of my knowledge, Government did not decide to proceed in any way with that recommendation. Presumably, it considered it and, I would feel, probably in the light of the kind of information that I have laid before you today, Government felt that it was not justified.

Co-Chairman Mr. BASFORD: I did not quite follow you. Which report?

Mr. MOYES: The royal commission from which you were quoting was a report, as I understand it, to Government. Is this correct?

Co-Chairman Mr. BASFORD: Yes. It called on the Association of Canadian Advertisers, in co-operation with the Food Industry, to draw up a code of ethics. It was a request of the food industry, in other words.

Mr. MOYES: Again, I may be misunderstanding procedure on this one, but, as I understand it, a report of this kind is considered by the Government of the day and is endorsed or is filed for future consideration. The answer to this is, in fact, that we have not moved in this direction.

Co-Chairman Mr. BASFORD: The royal commission, rather than impose a code of ethics or some legislative measure, called upon the industry itself to draw up its own code.

Mr. MOYES: Yes.

Co-Chairman Mr. BASFORD: I take it your answer is that the industry did nothing about it.

Mr. MOYES: The answer on this one is that—1959?

Co-Chairman Senator CROLL: Yes.

Mr. MOYES: This is correct. There is, of course, the grouping which is now called the Institute of Canadian Advertising. There is the grouping called the Association of Canadian Advertisers. Some time in that intervening period I believe that code of ethics was drafted. Whether it was drafted as a result of the recommendations of the royal commission or not, I would not know myself. We as an association are seven years old. We were not present at the time.

Co-Chairman Mr. BASFORD: I wonder if you could give me an answer to that or if you could find out that information?

Mr. MOYES: As to whether—

Co-Chairman Mr. BASFORD: Precisely what was done as a result of that recommendation?

Mr. MOYES: I noticed this morning that it is not a desirable thing to ask questions back to the committee—

Co-Chairman Mr. BASFORD: Not necessarily.

Mr. MOYES: But, if I may on this one, is it not true, essentially that any recommendations of this kind are submitted to Government for its consideration before proceeding with them?

Co-Chairman Senator CROLL: No.

Co-Chairman Mr. BASFORD: No.

Mr. MOYES: Again, this was purely a personal comment on it.

Co-Chairman Mr. BASFORD: This is not quite correct, Mr. Moyes. A royal commission can make any recommendations it wants. The 1959 royal commission, drawing back from saying that Government should draw up a code of ethics

and impose it on industry, asked the industry to draw up its own code, which, presumably, would be more preferable to the industry than having something imposed on it from above.

Mr. MOYES: Far be it from me to try scoring debating points here, but I will try to find the answer. I might say that there were also a number of recommendations put out which were not proceeded with.

Co-Chairman Mr. BASFORD: Some were proceeded with and some were not.

Mr. MOYES: All right.

Co-Chairman Mr. BASFORD: We had filed the other day the organization chart of the Weston Loblaw Company. It would seem to me that, if that sort of conglomeration is allowed, and if those mergers are allowed, you might end up with just one member in your organization.

Mr. MOYES: As of now, we find, even after the table, that we have no Loblaw western member.

Co-Chairman Mr. BASFORD: All right.

Co-Chairman Senator CROLL: You do not know of any. That is what about 10 or 12 other people thought before they saw it. Go ahead, Mr. Basford.

Co-Chairman Mr. BASFORD: I was wondering what was the view of the Grocery Products Manufacturers of Canada on anti-combines legislation?

Mr. MOYES: In the matter of monopolies in the grocery industry?

Co-Chairman Mr. BASFORD: Yes.

Mr. MOYES: We have not, obviously, been able to discuss the most recent information that has been published on this. In general, we do not have any views on this. We feel that the monopolies legislation works effectively.

Co-Chairman Senator CROLL: Our monopoly legislation works effectively?

Mr. MOYES: Yes.

Co-Chairman Senator CROLL: You are the only one in the world who believes that.

Mr. MOYES: It works as effectively as any other monopoly legislation.

Co-Chairman Senator CROLL: As effectively as the British or the American legislation? How can an organization at a level such as yours have that view of our combines legislation?

Mr. MOYES: Because we are enjoying the second highest level of living in the world.

Co-Chairman Senator CROLL: You are enjoying the combines legislation. That is what you are enjoying.

Co-Chairman Mr. BASFORD: At any rate, that is not what I said.

Co-Chairman Senator CROLL: Well, go ahead.

Co-Chairman Mr. BASFORD: I take it from your brief that you are opposed to any form of imposed standardization of packaging?

Mr. MOYES: Yes, sir.

Co-Chairman Mr. BASFORD: Are you asking for a repeal of the Agricultural Products Standardization Act?

Mr. MOYES: I am sorry. I should have phrased the answer more exactly. We are opposed to standardized weights of packaging.

Co-Chairman Mr. BASFORD: Well, I believe Colgate-Palmolive said, very effectively, that you can have standardization of weights or standardization of packages but not both. You can have one or the other but not both.

Mr. MOYES: I believe they might have been talking in terms of non-rigid containers.

Co-Chairman Mr. BASFORD: No, they were not.

Mr. MOYES: I am sorry. It is probably true, sir. The cans here are an indication of this. The Government, wishing to standardize in this particular industry under stress of wartime conditions, found that they had to standardize on volume and could not standardize on weight.

Co-Chairman Mr. BASFORD: All right. You have produced a whole selection of products there, many of which, I would agree, quite obviously cannot be standardized. You have sugar there, however. Surely we are able to standardize the packaging in sugar.

Mr. MOYES: I ought to know the answer to this one, sir: Yes, we can and do.

Co-Chairman Mr. BASFORD: I am not sure what you mean.

Mr. MOYES: I mean that, in fact, sugar is now packed in exact weights, since it is only one product. Essentially, this kind of demonstration applies to manufacturing lines or plants where you have multiple products going through, as we have so often in Canada. You very seldom get just the one product line, unfortunately.

Co-Chairman Mr. BASFORD: And it would be quite easy, for example, to standardize the packages for toothpaste, in terms of fluid ounces.

Mr. MOYES: In terms of volume. I would think this is entirely possible, sir, yes.

Co-Chairman Mr. BASFORD: Why has industry never done this?

Mr. MOYES: The answer on this one, which I am afraid is probably unacceptable to the committee, is "history". When a product of a particular size has proven its popularity and, as a result, a high-speed packaging line has been developed, then changing that packaging line would represent a high-cost level.

Co-Chairman Senator CROLL: What is the difference between saying 106 grams and so many ounces? To most people in Canada the word "grams" does not mean very much. What great expense is involved in changing that over?

Mr. MOYES: So long as we do not go into fractional ounces, I believe not too much. Have the witnesses before you not stated that, in fact, they are in the process of doing the changeover?

Co-Chairman Senator CROLL: In process? Well, I think someone said "in process", but we are getting older here all the time.

Co-Chairman Mr. BASFORD: You are an association of 82 grocery manufacturers. Do you, at your meetings, discuss standardization at all?

Mr. MOYES: No, sir, we have not had a packaging group. There is a very large packaging association in Canada, and as a result we have not to date been working in the area of standardization of packaging.

Co-Chairman Mr. BASFORD: That strikes me as odd. It seems strange that you would never discuss this when there is obviously—at least to me it is obvious—a good deal of agitation about it and has been for years past.

Mr. MOYES: This is only saying that our particular association has not discussed it. I would assume there have been discussions elsewhere. It just so happens it has not been inside our association.

Co-Chairman Mr. BASFORD: What does your association discuss?

Mr. MOYES: It is discussing in general terms, as my presence here today indicates, the relationship with Government at all its levels, and with the consumer. I have had the pleasure of attending all the annual meetings and many of the provincial meetings and local meetings of the Consumers Association and I have taken part in their operations frequently. We are working towards every possible form of simplification of the very complicated process of delivering 180 million packages of foodstuffs to Canadians every week, and such things as the transportation of these are the areas where we are working. Recognizing that once you have got a shipping carton of a product which is going to wind up direct at the grocery outlet, you have the same problems regardless of whether it is canned vegetables or detergents. This is the area in which we are active.

Co-Chairman Mr. BASFORD: I would like to go back to the question of cooperative advertising for a moment. Your brief does not say much about it, although it has been discussed widely in the Committee. It seems to me that the chain stores have a tremendous power over your members as to whether their products get into the chain stores or not.

Mr. MOYES: Unfortunately, that is dealt with in part of the brief I skipped over in the interests of saving time. This is a point we make very strongly. Both the grocer and the manufacturer are in strong competition for the consideration of the housewife. This is why you have a competitive situation which is unparalleled and necessary, of course, for the benefit of the housewife.

Co-Chairman Mr. BASFORD: But there is also a tremendous power on the part of the chain stores over your members as to whether they get their products into the store.

Mr. MOYES: The chain store has great difficulty in telling the housewife what she may not buy if she wants it.

Co-Chairman Mr. BASFORD: That is the reason that Campbells Soups can tell her to jump into the lake if they like while others cannot.

Mr. MOYES: Is that your reasoning?

Co-Chairman Mr. BASFORD: Yes. I cannot imagine a chain store operating without Campbell soups whatever about some other products. To deal with co-operative advertising the Combines Investigation Act was amended in 1960. This was in connection with Section 33B. Did you approve of that?

Mr. MOYES: Yes. Let me not make a blanket yes on this. It clarified certain issues that were grey at that time, but it also eliminated one area which we were very sorry to see go. It brought everybody, as far as co-operative merchandizing allowances were concerned, down to a single plateau in that the only criterion was the volume of business. That could include somebody who was static and not growing, or somebody who had declined from a higher level or somebody who was coming up. Many members who wished to assist the man on his way up were prevented by the law from so doing.

Co-Chairman Mr. BASFORD: Is that your only objection to this change?

Mr. MOYES: Let me say that any legislation is capable of improvement. We have looked at a number of suggestions for ways in which it could possibly be improved. We have studied the American legislation on this and have shrunk appalled from some of the legal difficulties which it appears to bring up. It is not perfect legislation, but it is effective legislation.

Co-Chairman Mr. BASFORD: In what ways can it be improved?

Mr. MOYES: We have not found any yet. If we had we would recommend it. We have been actively considering this. You will remember that the then Minister of Justice invited associations to submit recommendations. The original invitation was, if I remember correctly, issued five years ago. At that time we came to the conclusion that the area in which we would like to do further work to see whether it could be clarified were those areas relating to what we might call the terms of trade, 33A, 33B, B(1) and B(2) and in the course of this we discussed with a number of people who are familiar with alternative approaches to this and attempted to come up with any recommendations which might work better. To date we have not been successful.

Co-Chairman Mr. BASFORD: Would it not save your members a great deal of money if you outlawed co-operative advertising?

Mr. MOYES: Yes.

Co-Chairman Mr. BASFORD: They could advertise on their own independently of chain stores.

Mr. MOYES: This has been directly discussed and considered, and my members believe that their ability to compete would be reduced if co-operative advertising allowances were abolished. They feel it is an essential need to compete at all levels directly to the consumer through media advertising and in the various methods of promotion at what is termed store level and they would not welcome the disappearance of co-operative merchandising.

Co-Chairman Mr. BASFORD: But couldn't you address yourself directly to the consumer?

Mr. MOYES: We are going back to yet another paragraph which I omitted when I read the brief. It says and I think I can remember this almost verbatim, that when the housewife comes down between the aisles of her supermarket she is no longer seeing the messages, the advertising messages of the brand product. It is at that point that we would like to be free to compete actively as she goes to take one product from the shelf and leave another one there.

Co-Chairman Senator CROLL: But I thought she went to the shelf to find romance. If I remember correctly, one of the witnesses told us that.

Mr. MOYES: That was a retail store.

Co-Chairman Mr. BASFORD: As I read paragraph 72, it seems to prevent that happening.

Mr. MOYES: Prevent the housewife—

Co-Chairman Mr. BASFORD: From exercising that freedom.

Mr. MOYES: No, sir, they are not able to do that. They are able to present their own products in a more favourable light and leave the choice to the housewife.

Co-Chairman Mr. BASFORD: But by giving their own products much more shelf space and favourable displays they can be quite damaging to your members' products?

Mr. MOYES: Manufactured brand products are moving off the shelves in very much greater numbers.

Co-Chairman Mr. BASFORD: Do you say we need co-operative advertising to counteract what the chains can do to your products in the store?

Mr. MOYES: No, sir, to compete at the shelf level.

Co-Chairman Mr. BASFORD: And unless the chains forced you to pay this co-operative money you could not compete on the shelf?

Mr. MOYES: I did not hear that in my previous answer. Did it come through? We wish to compete at the store level, as we wish to advertise through the consumer media.

Co-Chairman Mr. BASFORD: The chains, having the power they have, can force you to pay money to compete on the shelf.

Mr. MOYES: They can force us to do what we wish to do.

Co-Chairman Senator CROLL: How can they force you to do what you wish to do?

Mr. MOYES: I did not introduce the term "force." I do not think it is inherent in any of the answers I have given. I am sorry, that was an improper answer to Mr. Basford.

Mrs. MACINNIS: On a point of clarification, did I understand you to say that the abolition of the co-operative advertising would save consumers considerable money?

Mr. MOYES: No.

Co-Chairman Mr. BASFORD: No, the members.

Mr. MOYES: I am sorry, Mrs. MacInnis.

Co-Chairman Senator CROLL: As I understood you to say, your 82 members do not collectively, to your knowledge, discuss packaging—you said to Mr. Basford?

Mr. MOYES: I think this is true.

Co-Chairman Senator CROLL: And they have no policy on it?

Mr. MOYES: As members of our association.

Co-Chairman Senator CROLL: These 82 members for whom you speak. Can you explain to me why, then, you have 15 paragraphs in here on packaging, if your group has no policy on it—from 113 to 127? Whose views are those?

Mr. MOYES: You are quite right. We, as an association who in the course of our normal operations are trying to serve the Canadian housewife more efficiently at lower cost, did not get into the area of packaging. However, a new factor entered into this which was the activities of this committee.

Co-Chairman Senator CROLL: Exactly.

Mr. MOYES: I am sorry; I should have made this clear.

Co-Chairman Senator CROLL: Go ahead.

Mr. MOYES: During the course of the proceedings of this committee a number of points were raised which seemed to suggest that it would be hoped that a standardization of packaging might reduce food costs. Under those circumstances—I am sorry—we looked at the question of what a standardization of food packaging by weight might do to food costs.

Co-Chairman Senator CROLL: Do not say "we," because you said your organization had nothing to do with it. You looked at the question and made this presentation.

Mr. MOYES: No, we—a committee making this brief and the membership in general. I stand corrected; my previous evidence was not correct.

Co-Chairman Mr. BASFORD: Could I just go back? The Agricultural Products Standardization Act has produced a certain amount of standardization.

Mr. MOYES: Yes.

Co-Chairman Mr. BASFORD: You are not asking for the repeal of that?

Mr. MOYES: I do not think you can move back history, no.

Co-Chairman Mr. BASFORD: How do you know, I might be the greatest friend your members have. Do you want it repealed?

Mr. MOYES: We now have the lines and the production facilities. You do not unwind history. In the same way you do not unwind history that easily on the subject of package sizes we were discussing earlier, some of the odd ones.

Co-Chairman Mr. BASFORD: The whole industry did not go broke because of that?

Mr. MOYES: An industry does not go broke during wartime under emergency controls necessary for tinplate at that time.

Co-Chairman Mr. BASFORD: The act is only five years old.

Mr. MOYES: That is only a revision; the act existed long before.

Co-Chairman Mr. BASFORD: A degree of standardization has gone on since the war.

Mr. MOYES: I thought additional sizes had been added by the most recent revision.

Co-Chairman Mr. BASFORD: And some had been taken out.

Mr. MOYES: This was an evolutionary process from a situation directly derived from the war, as I understand it.

Co-Chairman Mr. BASFORD: And your submission is that the standardization has gone as far as it possibly can go?

Mr. MOYES: My submission, basically, is to get as close as you can to meeting the individual demands, and this is again a point in the brief, which is that one of the great moves forward in the grocery industry in recent years has been the recognition that this is not a mass feeding operation. While you cannot obviously get down to giving individually custom-tailored products to each individual, wherever there is a group of individuals with similar tastes you can now satisfy those tastes. In order to do this and still to give freedom of choice—and there is a very abbreviated statement on this in the summation—you need the packages which you find on the shelves today. Where you do not need them, the demand dries up for them and the package disappears. This, I think, is the package standardization which really effectively works, the decision in the weekly voting which the housewife does as she goes down the shelves.

Co-Chairman Mr. BASFORD: Kellogg's told us they had eliminated two of their shells and were seriously considering eliminating one of the other shells, one of the other sizes, which would indicate to me there is a degree of standardization that could take place—that this is not static.

Mr. MOYES: This is right; there is nothing static in this industry at all. One company, in its wisdom, believes the requirements of consumers, or of its particular customers may be very nearly met in one way, and another company believes they are more nearly met in another way, and the choice is absolutely the consumer's, and she leaves it or takes it off the shelf. If she leaves it on the shelf it dies and disappears, and continuously this happens, it goes off the shelf.

Co-Chairman Mr. BASFORD: That is not why Kellogg's discontinued two shells. They were able to pack it in two other shells they were already making and therefore economized.

Mr. MOYES: Therefore, they have taken a calculated risk in offering their product in a different way to the housewife. If she likes it she will continue to select it, and if she does not she will vote against it.

Co-Chairman Mr. BASFORD: If one company can eliminate two of its sizes, why has your association never discussed the issue? It would seem to me obviously something on a voluntary basis could be done, but you have not concerned yourselves with it.

Mr. MOYES: We have not to date because there have been other organizations active in this area.

Co-Chairman Mr. BASFORD: Of which your members are members?

Mr. MOYES: Yes. Proceeding with Senator Croll's point, if I may, on this one, as we have had to structure our own views and express them quite specifically in this brief in just these recent months, we shall obviously not stop at this but we shall come back and discuss this further; but where this may go, I would not be able to say at this stage.

Senator CARTER: My questions are all supplementary by now. Mr. Moyes, you were present this morning?

Mr. MOYES: Yes, I was.

Senator CARTER: You will recall there was considerable discussion about the type of advertising that is geared to appeal to the child.

Mr. MOYES: Yes, indeed.

Senator CARTER: And to take advantage of the parents' inability to discipline the child. Has your organization given any thought to that question?

Mr. MOYES: As an organization, we have not come to express a specific policy on this one. I would say the views that were expressed this morning are the views of the gentleman who expressed them, and what I know of the attitude of the manufacturers in this one would be somewhat different. I am going back, if you will pardon me, to personal experience on this one, where one of the greatest difficulties when my children were young was persuading them to eat anything at all at breakfast. This was a continuing and running battle.

As you know, not only in the area of children but generally in Canada it is recognized by nutritionists at any rate that breakfast is probably the most important single meal of the day from a nutrition and health point of view. I think we were talking particularly in terms of cereals this morning, but the effect has been to encourage children to eat breakfast. This is how it worked in my own home. And, of course, perhaps the logical next step on that one is the one that you have heard about, where having got out of the childhood stage they get into the teen stage and it gets even more difficult. I have two girls, and it gets much more difficult to get them to eat anything at breakfast time.

It is in this area that the introduction, with the co-operation of the Food and Drug Directorate, of these new—I think I ought to call them "powdered breakfast drinks", so I do not start treading on any particular trade names on this one—has and is contributing towards a much better nutritional level at all ages of children in Canada. Let me broaden that even further to say that in surveys that have been carried out it has been indicated that 50 per cent of Canadians—and this includes adults—do not get an adequate breakfast.

Senator CARTER: Well, I gather that your organization, or at least some of your members, do not approve too much of that type of advertising.

Mr. MOYES: No, sir, that is not what I am saying at all. What I am saying is that I think it has been triumphantly successful in improving the nutrition of children in Canada.

Senator CARTER: I am talking about this particular type that exploits the ability of a parent to discipline her child.

Mr. MOYES: Yes, sir. If you will pardon me on this one, I am not accepting the term "exploit". I am certainly not phrasing it in the context of the inability to discipline a child. These were value judgments that were read into the record this morning. What I am saying is that the effect of this advertising has been to encourage small children to eat breakfast.

Senator CARTER: What you have said is different from what those gentlemen this morning said. I thought you started out by saying that you did not hold the same opinion that was given this morning.

Mr. MOYES: Yes. Am I not coming through in putting it on a different basis?

Senator CARTER: You may be putting it on a different basis, but you are practically defending it.

Mr. MOYES: Yes, I am totally defending it, but I think the reasons why I defend it is the area in which I differ from what was said this morning. No, I totally defend it.

Senator CARTER: Now, let us get back to packaging again. You are saying in your brief that you are inclined to blame this multiplicity of packages on the housewife.

Mr. MOYES: May I cut in again, sir, to say that the word "blame" is yours, and not mine. I talk about the freedom of choice of the housewife.

Senator CARTER: Well, it is rather an exercise in semantics. What you say in your brief is that we have all this multiplicity of packages because the housewife wants them. Is not that what you are saying?

Mr. MOYES: Because she takes them off the shelf, yes, sir.

Senator CARTER: Well, we had some witnesses before us earlier who were inclined to put the blame—and I am going to use the word "blame" here—on the government. They said: "We have nothing to do with these different sizes you are talking about. The department lays down these sizes and we just carry out the law." When we got the departmental officials before us we found out that that was not quite accurate. Before the department took a hand in this the tremendous multiplicity of sizes was even worse, and due to certain conditions that arose during the war—the shortage of steel and so forth—the government had to step in and say: "We have got to cut out a lot of these special sizes", so they reduced them considerably. Now, they did not take any initiative at all in formulating what sizes the housewife should have. That was done by the processors themselves. Are you saying it is not done by the processors themselves?

Mr. MOYES: In formulating the sizes which the housewife should have?

Senator CARTER: Yes.

Mr. MOYES: We are going back, of course, to the context of wartime, as you were stating, and the economizing of tin plate in the existing packaging lines. This was the basis on which that was done. I have to make it clear that you have to weigh both considerations here. The housewife may wish to have a wide variety of sizes available to her. At the same time, the number of packaging lines may be restricted, and these, as you have heard in evidence, constitute a high capital cost. So, you have both these characteristics. I would not want it to be read in that only the housewife decides all the time the sizes of packages. Both things occur so that you can get economic production.

Senator CARTER: Would you say then that the housewife has suffered because of all these other packages that were eliminated by the government?

Mr. MOYES: Let me say that the housewife in the United States enjoys a wider choice.

Co-Chairman Senator CROLL: That was not the question. Senator Carter asked you if the housewife here had suffered as a result in the reduction of the number of sizes. What is your answer to that?

Mr. MOYES: If I may introduce a value judgment there, I would say that the housewife in the United States enjoys—

Co-Chairman Senator CROLL: I do not know about the housewife in the United States, and she is not my obligation. The housewife in Canada is my obligation, and Senator Carter's obligation. What is your answer to his question?

Mr. MOYES: The housewife in Canada has a narrower choice than she had before those regulations were introduced.

Senator CARTER: Has that been of any disadvantage to her?

Mr. MOYES: I cannot say what her behaviour would have been in the hypothetical case had this not occurred. If the Chairman will not allow me to introduce the United States—

Co-Chairman Senator CROLL: I will allow you to introduce the United States and all the countries there are in the world if that will help you feel confident about your answer, but I merely want to indicate to you that that was not the question.

Mr. MOYES: On the other hand, sir, of course, I am being asked to compare an actual state of affairs as of today with a hypothetical state of affairs of where we would have been if those regulations had not been introduced. This is a question I could not answer without drawing on the experience of other countries.

Senator CARTER: You have used the term "slack fill" several times this afternoon.

Mr. Moyes: Yes.

Senator CARTER: Is there any objection to that? You called it the principle of slack fill.

Mr. MOYES: The principle of slack fill is technically possible. This is basic to the philosophy of any agency that is charged with ensuring that the housewife does not get mislead by packaging.

Senator CARTER: And does that apply to the outer package that appears on the shelves, or to the inner package—

Mr. MOYES: Yes, the outer package that appears on the shelves.

Mr. CHOQUETTE: Mr. Chairman, I would like to give the interpreter a chance, so I will put my question in French. La première des choses, M. Moyes, je ne puis pas m'empêcher de constater la richesse de renseignements que contient votre mémoire, ainsi que le travail considérable qu'il a certainement entraîné, et pour lequel je vous félicite vivement.

Cependant, c'est un rapport tendencieux, parce que c'est basé sur des statistiques; c'est une compilation statistique et vous savez que les statistiques sont souvent de nature à tromper.

Un exemple, au paragraphe 8, vous dites ceci:

> Selon ces données, un homme aurait dû travailler 7 minutes et 7 secondes en 1961 pour acheter une pinte de lait; au mois de mai dernier, il lui aurait fallu 7 minutes et 2 secondes.

Seulement, ce que ça ne dit pas, probablement qu'il y a eu relativement autant, une diminution. Ce qu'on ne peut pas savoir, c'est: est-ce que relativement à

l'intensité du travail, il y a eu une diminution égale? Ce que je veux dire est: si celui qui travaille est obligé de courir pendant 7 minutes et 7 secondes, il fait certainement plus de travail que celui qui doit marcher 8 minutes; alors, il y a quelque chose qui ne va pas suffisamment; il y a une diminution quant au temps, mais, vous n'êtes pas capable de dire quant à l'intensité du travail. En d'autres termes, on peut dépenser moins de temps, mais plus d'énergie; cela, vous ne pouvez pas l'établir?

Mr. MOYES: May I answer you in English, sir?

Mr. CHOQUETTE: Certainly.

Mr. MOYES: Your point is entirely correct on that one, and I agree. The interests of the worker are very well represented in Canada today, and I would not believe that there has been any major change in the nature of the work. I am sure that this would have been brought to our attention through the newspapers and the like if this had happened. As a value judgment, if I may say so, I believe that the intensity of the work would be in broad terms comparable and, therefore, the figures are relatively true. Yes, I concede entirely that there is no proof of it.

M. CHOQUETTE: Maintenant, encore là, c'est ce que je veux prouver; je ne veux pas vous accuser de nous induire en erreur; je veux établir simplement l'incertitude qui règne; il y a des notions valables, mais quand même, il y a de l'incertitude.

Je prends un autre exemple, au paragraphe 34, où vous affirmez que—

> près de 80 p. 100 sont imputables à la hausse des prix des produits agricoles.

Seulement, la hausse des prix des produits agricoles n'est-elle pas une conséquence de la hausse des prix que les firmes que vous représentez ont parfois occasionnée? Je remarque que la viande, notamment, a augmenté considérablement: le porc, 54 cents. Pourquoi le porc augmente-t-il? C'est que le cultivateur qui s'approvisionne de moulée, de «feed grain», à ce moment, ne peut aller à Ogilvie Flour Mills, si Ogilvie Flour Mills augmente le prix de sa moulée sans qu'en conséquence le prix de la viande, le porc, le bœuf, augmente. Alors, il y a quelque chose qui n'est pas tout à fait clair, et que vous n'êtes pas capable d'établir clairement?

Mr. MOYES: Let me say to this one that I did take the opportunity at an earlier stage in making very clear that every statistic indicates that the farmer until very recent times has not benefited from the increase in the levels of return for his work to the same extent that other sectors of the economy have, and that what is now happening and is reflected so far as we are able to determine in these figures, is that the farmer at long last is catching up.

Mr. MCCUTCHEON: Mr. Chairman, would you please tell Mr. Choquette about the change in paragraph 130.

Co-Chairman Senator CROLL: In paragraph 130, after the word "expenditure" we added the words "at the retail level," and that makes a lot of difference. That was an amendment that was agreed to as expressing the proper viewpoint of the witness.

Mr. MOYES: Every figure mentioned in this report is the retail price as established by Dominion Bureau of Statistics.

Co-Chairman Mr. BASFORD: Yes, Mr. Choquette, the farm lobby has been active this afternoon.

Co-Chairman Senator CROLL: Anything further, Mr. Choquette?

M. CHOQUETTE: Les membres qui font partie de votre association,—de quelle manière contribuent-ils à l'existence de votre association?

Mr. MOYES: This is very broadly speaking a percentage of the sales through grocery outlets in a given year.

M. CHOQUETTE: Il y a quelque chose qui, des fois, peut nous guider parce que, lorsque nous interrogeons les compagnies,—leurs représentants,—dont les noms sont inscrits ici, on leur demande quel est leur budget de publicité. Ils ont un budget de publicité, qui n'inclue pas la contribution qu'ils ont à payer pour être membre de votre association,—et vous vous chargez de faire la publicité au nom de ces compagnies-là. Est-ce une affirmation exacte, ou non conforme à la réalité?

Mr. MOYES: I am speaking without the book, and I really should have this information. From memory, the largest contribution of any one company is $2,000. Does that go some way to answer your question?

Co-Chairman Senator CROLL: Is there anything else?

Co-Chairman Mr. BASFORD: Mr. Moyes, you have told us that most of the price increase has been due to the increases at the retail price level of the farm produce. Tomorrow morning we have to start to write a report. I do not see anything in your conclusions which indicate what you would like to see in that report.

Mr. MOYES: Perhaps a statement that you are pleased to see that the farmer is now getting his due reward, sir.

Co-Chairman Senator CROLL: That will be there, if that will please you. Is there anything else you would like?

Co-Chairman Mr. BASFORD: What is your suggestion to the committee that we should report on?

Mr. MOYES: Well, I would hesitate to intervene where experts of the calibre of Dr. Deutsch have been talking to you on this subject; but what I am saying in the most basic terms is that the food sector of the Canadian economy has performed remarkably well in a time of very considerable pressures of growth and development, and I think that is a fair summary of what perhaps the Economic Council report is now saying.

Co-Chairman Mr. BASFORD: The advertisers this morning recommended some form of consumers' council. Do you support that?

Mr. MOYES: That is a very interesting proposal which I had not previously heard. We shall of course meet to consider this one and discuss it. I would not be able to form an opinion on behalf of my members as of now. We, of course, as you have heard from, I should think limitless, witnesses to date, do eternally carry out a consumer search, each and individually, and the consumers vote in a way which is not possible on any other subject, once a week, on every product they buy, to accept or reject. There never has been a voting system which has enabled so many multiple choices to be exactly recorded once a week from one representative of every family in Canada.

Co-Chairman Senator CROLL: Mr. Moyes, on behalf of the committee I want to thank you for your view, forcibly presented, and we shall of course give it consideration. Thank you very much.

Mr. MOYES: Thank you, sir.

Co-Chairman Senator CROLL: So far as the members of the committee are concerned, this is our last meeting before the adjournment. May I say thank you to you all for how faithful and devoted you have been both in attendance and to the work. We have called on you twice a week for a long time and you have responded. I know that you have put aside work in the house as well as in other committees. You have been of great service to the consumer and you have benefited the consumer. Of course, the consumer also has been of help to us.

All I can add is a paraphrase in terms I think you will understand—"Consumers of the world unite; you have nothing to lose but the chain stores". I do not know whether that is a loss or not, but it struck me as being appropriate.

My co-chairman has told you that we have to prepare a report. We have been working on it and shall be doing so tomorrow with the steering committee. Mr. McCutcheon is here, and we have invited others. We have hopes that we shall get it through the steering committee tomorrow, in which case we shall try to have a meeting of the committee for endorsement possibly on Thursday. Then we can present it in the house on Friday morning, get it into the Senate at the same time, and have our interim report.

You will appreciate that we promised an interim report. It is not easy to get together because there are many things that will appeal to various members of the committee, but all in all I think you will find in it a reflection of your thinking in the course of the hearings, and it will give some indication of our thinking, and perhaps some direction to the consumers.

That is all I have to say, is there anything you want to add, Mr. Basford?

Co-Chairman Mr. BASFORD: Except that with regard to your remarks, senator, about the faithfulness in attendance by the members, as house chairman, I would like to express a special appreciation to the senators for their faithful attendance at these committee meetings.

The committee adjourned.

APPENDIX "12"

Supplementary information submitted by

Canada Packers Limited
Canadian Canners Limited
Colgate-Palmolive Limited
Couvrette et Provost Ltee
General Foods Limited
Gerber Products of Canada Limited
Kellogg Company of Canada Limited
Lever Brothers Limited
M. Loeb Lmited
Steinberg's Limited
Western Grocers Ltd.

CANADA PACKERS LIMITED

Proceedings No. 16, Page 1122

Supplementary information supplied by the Company arising out of their hearing before the Committee on November 8, 1966.

Q. Senator Croll (Page 1122) requested a statement showing the amounts paid (per 100 pounds) for (a) grade 'A' hogs, (b) choice beef carcasses (Toronto plant prices), and (c) the realized selling prices of primary wholesale cuts (per pound) for the first complete week February 1965, same week in February 1966 and the last complete week in October 1966.

A. The Company has replied as follows:

Schedule A

December 2, 1966.

BEEF AND PORK PRICES

	Week Ended Feb. 6/65	Week Ended Feb. 12/66	Week Ended Oct. 12/66
Red Steer Carcasses—Cost	$39.52 Cwt.	$46.60 Cwt.	$45.41 Cwt.
Selling Prices—Red Steer Carcasses	41½¢	48¼¢	46¾¢
Realized Whole Selling Prices—			
Red Brand Chucks	36½¢	45¢	42½¢
Red Brand Hips	49½¢	60¢	55½¢
Red Brand Ribs	47¢	61¢	54¢
Red Brand Loins	60¢	72½¢	71¢
Hogs			
Cost Delivered Plant—	$28.96 Cwt.	$44.02 Cwt.	$34.04 Cwt.
* Primal Pork Cuts			
Realized Wholesale Selling Prices			
Fresh Hams	41½¢	†	47¢
Frozen Boneless Backs	54¢		
Fresh Butts	36¾¢		

† No Sales.

* These sales are of product from Montreal, Edmonton and Winnipeg.

Beef Carcass prices are on the basis of cost in cooler, less by-product expense and excluding killing expense.

Beef Cut prices on Chucks and Hips are basis Chain Store selling. Rib and Loin prices are average prices on sales made to Toronto and Montreal wholesalers.

Hog prices are basis hot dressed weight laid down Toronto Plant with no processing expenses included.

CANADIAN CANNERS LIMITED, HAMILTON

Proceedings No. 14, Pages 938-965

Supplementary information supplied by the Company arising out of their hearing before the Committee on November 3, 1966:

Q. Mr. Urie (page 938-939) requested gross sales and net earnings for Canadian Canners Limited and its subsidiaries for the period 1962-1966 inclusive.

A. The Company has replied as follows:

ANALYSIS OF GROSS SALES AND NET EARNINGS BY CORPORATION
FIVE YEARS ENDED FEBRUARY 28, 1962 TO FEBRUARY 28, 1966

	(In Thousands of Dollars)				
	1961-62	1962-63	1963-64	1964-65	1965-66
	$	$	$	$	$
Gross Sales					
Canadian Canners Limited	36,637	37,173	38,972	41,357	44,380
Wagstaffe Limited	4,041	4,860	6,002	5,755	5,426
Boese Foods Limited	....	....	....	2,976	3,592
Canners Machinery Ltd.	971	884	841	1,282	1,705
Walmer Transport Co. Ltd.	913	975	1,073	1,202	1,275
Aylmer Foods Warehousing Ltd.	....	117	280	301	320
Inter-Company Sales	(1,245)	(1,192)	(1,251)	(2,109)	(3,165)
	41,317	42,817	45,917	50,764	53,533
Net Earnings					
Canadian Canners Ltd.	328	488	1,468	1,801	1,858
Wagstaffe Limited	44	85	277	176	129
Boese Foods Limited	....	....	....	68	113
Canners Machinery Ltd.	25	14	6	25	36
Walmer Transport Co.	23	28	26	39	19
Aylmer Foods Warehousing Ltd.	....	(1)	4	3	1
	420	614	1,781	2,112	2,156

Q. Mr. McCutcheon (page 940) asked for further information about the Company-operated farms.

A. A satisfactory reply is given below: Canadian Canners Limited during 1966 operated farms in six areas which were made up of 72 different parcels of land. Ten of these parcels in two areas, comprising 593 acres, are owned by the

company and the balance, comprising 4,458 acres, are leased. Approximately 9% of the raw produce that Canadian Canners Limited used in 1966 was grown on farms operated by the Company.

Q. Mr. Urie (page 943) requested a sample annual contract with producers.

A. The Company has provided two Growers' Contracts used by Canadian Canners Limited, one for fruits and the other for vegetables. (*See Schedule A, page 2109 and Schedule B, page 2110*). In addition, copies of the Ontario Tender Fruit Growers' Marketing Board "Regulations (Peaches) 1966" and "Price Determination Order (Peaches) 1966", and the Ontario Vegetable Growers' Marketing Board "Agreement for Marketing the 1966 Crop of Tomatoes for Processing" have been filed with the Committee.

Q. Respecting deal allowances (page 962-963), Mr. Urie indicated interest in information that such allowances are passed on to the consumer.

A. The reply in support of this statement is given thus: We believe we obtain desired results in granting merchandising allowances to distributors and that these deal allowances are passed on to the consumer as indicated here: (*See Exhibits II and III, page 2111*). The Ontario and Quebec territories were offered an Aylmer and Del Monte 10 oz. programme in late September, covering Fancy Peas, Cut Wax Beans and Cut Blue Lake Green Beans as outlined in Exhibit IV with the results tabulated. (*See Exhibit IV, page 2112*). In our assessment the allowances were passed on to the consumers and results accruing to our Aylmer and Del Monte Brands not only moved inventory but more importantly sampled new users to our products.

Q. Mr. Basford, (page 965) asked for information on the Company's co-operative advertising programme together with funds remaining in accounts at the end of the fiscal year.

A. The Company has replied as follows: During the last fiscal year ended February 28, 1966 Dominion Stores and Steinberg's took up all of the co-operative advertising funds that were earned while Safeway and Loblaw's had amounts remaining of $1,270 and $450 respectively.

(See question on page 2108)

EXHIBIT A

CANADIAN CANNERS LIMITED
Head Office, HAMILTON, Canada

GROWER'S CONTRACT
for
FRUIT

Canadian Canners Limited, hereinafter called the Company, hereby agrees to purchase the fruit grown by the undersigned grower in the 19.... season as indicated in this contract.

The grower hereby agrees to deliver to the said Company at its Factory No..... located at....., Ontario, or at its receiving station located at ....., Ontario, in the 19..... season the fresh raw product as indicated below.

Crop	Tons Contracted	Crop	Tons Contracted
Peaches:		Cherries, Montmorency	.....
Jubilee	.....	Cherries, Sweet Black	.....
V.-Type	.....	Plums, Prune	.....
Elberta	.....	Plums, Lombard	.....
Pears, Kieffer	.....	Plums, Reine Claude	.....
Pears, Bartlett	.....		

The provisions of the Farm Products Marketing Act, the Ontario Tender Fruit Growers' Marketing-for-Processing Plan and Regulations, and the agreement or award for the marketing of the above indicated 19..... crop(s) for processing and the Provisions and regulations 19..... shall apply to and form part of this contract.

Subject to Canadian Canners Limited approval of price as fixed by the Farm Products Marketing Board, and provided such price is not satisfactory to Canadian Canners limited, the Company (Canadian Canners Limited) may so notify the Grower, in writing or otherwise, within seven days after the price is known, that the price is not satisfactory, and this contract will become null and void.

The grower agrees to provide the necessary care and follow the current spray program established by the Ontario Department of Agriculture. The chemical residue on the fruit, as delivered to the Company, must be within permissible tolerances set by the Canada Department of Health and Welfare, Food and Drug Directorate.

The Company or grower shall be excused for non-fulfilment of contract caused by fire, power shortage, lack of transportation facilities, floods, strikes, earthquakes, wind, hail, acts of God, invasion, order of civil or military authorities, beyond the control of either party to the extent that the fulfilment of contract has been hindered or prevented by such cause or causes.

Payment for produce to be made to .....

(Signature of Grower) ..... Post Office Address .....

..... Growers No: Lot ..... Con. ..... Twp. .....

Telephone No. .....

Canadian Canners Limited hereby accepts the above contract and agrees to bind itself to the terms thereof.

Date .....
(Signed in Triplicate)

Factory No. .....

..... Local Manager

CANADIAN CANNERS LIMITED.

Form 173.01 3-66

(*See question on page 2108*)

EXHIBIT B

CANADIAN CANNERS LIMITED

Head Office, HAMILTON, Canada

GROWER'S CONTRACT

for

.....

Canadian Canners Limited, hereinafter called the Company, hereby agrees to purchase from the undersigned grower in the 19 .... season the fresh raw product named in this contract.

The grower hereby agrees to plant, cultivate and care for ..... acres of ..... using only seeds or plants approved of by the Company for the growing of such said fresh raw product. The grower hereby agrees to pay the Company ..... for such seed and/or ..... per 1000 for such plants when supplied by the Company.

The grower hereby agrees to deliver to the said Company at its Factory No. ..... located at ....., Ontario, or at its receiving station located at ..... Ontario, in the 19 .... season the fresh raw product named in this contract.

The Company hereby agrees to pay the grower for each ton of 2,000 pounds of ..... received by said Company from said grower as follows:

The Company or grower shall be excused for non-fulfilment of contract caused by fire, power shortage, lack of transportation facilities, floods, strikes, earthquakes, wind, hail, acts of God, invasion, order of civil or military authorities, beyond the control of either party to the extent that the fulfilment of contract has been hindered or prevented by such cause or causes.

The provisions of The Farm Products Marketing Act and the regulations and the agreement for the marketing of the ..... crop of .....

(Year) (Name of vegetable)

for processing, dated the ..... day of ....., ...,

(Day) (Month) (Year)

at ....., as approved by the Board, shall apply to and

(Place where agreement was made)

form part of this contract.

(Signature of Grower) ..... Post Office Address .....

Lot..... Con..... Twp..... Telephone No.....

Canadian Canners Limited hereby accepts above contract and agrees to bind itself to the terms thereof.

Date..... Factory No.....

(Signed in Triplicate.)

.....Local Manager

CANADIAN CANNERS LTD.

Form 542 4-60

(See question on page 2108)

EXHIBIT II

SPECIAL!

AYLMER CATSUP ..... 5 11 FL. OZ. BTLES. **1.00**

SPECIAL! ALL FLAVOURS—CHAMPION

DOG FOOD ..... 8 15-OZ. TINS **1.00**

SPECIAL! AYLMER

TOMATO SOUP ..... 9 10 FL. OZ. TINS **1.00**

SPECIAL! DELMONTE—FANCY

TOMATO JUICE ..... 3 48 FL. OZ. TINS **1.00**

SPECIAL! FANCY ASSORTED

AYLMER PEAS ..... 8 10 FL. OZ. TINS **1.00**

SPECIAL! AYLMER FANCY BLUE LAKE

CUT GREEN BEANS ..... 8 10 FL. OZ. TINS **1.00**

SPECIAL! AYLMER FANCY GOLDEN

CUT WAX BEANS ..... 8 10 FL. OZ. TINS **1.00**

EXHIBIT III

SPECIAL! Mix or Match, Fancy Green Beans, Wax Beans or Assorted Peas

DEL MONTE VEGETABLES ..... 8 10 FL. OZ. TINS **1.00**

(*See question on page 2108*)

EXHIBIT IV

			Our Regular List Price Per Case F.O.B. Toronto	Special Promotion Allowance	Net	Regular Retail Shelf Price	Per Unit	Special Featured Price	Per Unit	Featured Price Reduction Per Unit
24/10 oz.	Peas Asstd.	Fcy. Aylmer/Del Monte.....	$3.55	3.55 less 70¢	= 2.85	2/39	19½¢	8/1.00	12½¢	7¢
24/10 oz.	Cut Wax Beans	Fcy. Aylmer/Del Monte.....	3.50	3.50 less 65¢	= 2.85	2/37	18½¢	8/1.00	12½¢	6¢
24/10 oz.	Cut B.L. Beans	Fcy. Aylmer/Del Monte.....	3.50	3.50 less 65¢	= 2.85	2/37	18½¢	8/1.00	12½¢	6¢

November 25, 1966

COLGATE-PALMOLIVE LIMITED

Proceedings No. 22; pages 1598-1655

Supplementary information supplied by the company arising out of their hearing before the committee on November 29, 1966:

1. COMPARATIVE FINANCIAL STATEMENTS
ANALYSIS OF ADMINISTRATIVE AND OTHER INCOME AND EXPENSE
1960 – 1965
($000)

	1960		1961		1962		1963		1964		1965	
	$	%	$	%	$	%	$	%	$	%	$	%
Administrative	466	1.5	363	1.3	329	1.0	231	.7	249	.7	349	1.0
Product Management	36	.1	39	.1	37	.1	48	.1	60	.2	68	.2
Advertising Management	91	.3	91	.3	102	.3	120	.4	119	.4	120	.4
New Product Management	—	—	—	—	—	—	4	—	4	—	3	—
Market Research	166	.6	181	.7	184	.6	218	.6	211	.6	228	.7
Research & Development	66	.2	66	.2	74	.2	101	.3	117	.3	120	.3
Interest Expense	100	.3	56	.2	43	.2	39	.1	40	.1	24	.1
Interest Income	(5)	—	(12)	—	(32)	(.1)	(19)	—	(21)	(.1)	(161)	(.5)
Cash Discount Earned	(26)	(.1)	(23)	(.1)	(29)	(.1)	(26)	(.1)	(33)	(.1)	(30)	(.1)
Pension Expense Write-Back	—	—	(41)	(.1)	(30)	(.1)	—	—	(44)	(.1)	—	—
Total	894	2.9	720	2.6	678	2.1	716	2.1	702	2.0	721	2.1

December 1, 1966

2. COST ANALYSIS OF TEN MAJOR COMMODITIES MANUFACTURED IN 1966*

($000)

	Palmolive Soap		Fab Detergent		Ajax Detergent		Rose Lotion Vel Detergent		Encore Liquid Detergent		Ajax Cleanser		Ajax Floor and Wall Cleaner		Ajax Liquid Cleanser		Florient		Baggies	
	$	%	$	%	$	%	$	%	$	%	$	%	$	%	$	%	$	%	$	%
Gross Sales	1,687	100.0	2,387	100.0	2,032	100.0	919	100.0	426	100.0	2,440	100.0	265	100.0	1,141	100.0	1,404	100.0	707	100.0
Sales and Excise Taxes	157	9.3	222	9.3	189	9.3	85	9.3	40	9.3	227	9.3	25	9.3	—	—	—	—	—	—
Raw Material	425	25.2	706	29.6	575	28.3	128	13.9	72	16.8	263	10.8	48	18.0						
Packaging	98	5.8	217	9.1	165	8.1	106	11.5	72	16.8	403	16.5	25	9.6	456	40.0	695	49.5	402	56.8
Direct Wages	57	3.4	33	1.4	24	1.2	10	1.1	11	2.5	32	1.3	6	2.4						
Freight	62	3.7	186	7.8	146	7.2	52	5.7	66	15.4	232	9.5	16	5.9	66	5.8	32	2.3	9	1.3
Warehousing	19	1.1	64	2.7	47	2.3	18	2.0	14	3.2	90	3.7	6	2.4	42	3.7	50	3.6	8	1.2
Advertising	310	18.4	214	8.9	868	42.7	292	31.7	18	4.3	329	13.5	11	4.0	358	31.4	212	15.1	201	28.5
Selling Expense	91	5.4	129	5.4	110	5.4	50	5.4	23	5.4	132	5.4	14	5.4	62	5.4	76	5.4	39	5.4
Marketing	44	2.6	62	2.6	53	2.6	24	2.6	11	2.6	63	2.6	7	2.6	30	2.6	37	2.6	18	2.6
Administrative and Other	363	21.5	356	14.9	273	13.4	108	11.8	71	17.0	342	14.1	49	18.6	76	6.7	95	6.8	49	7.0
Taxes	34	2.0	112	4.7	(236)	(11.6)	26	2.8	16	3.8	185	7.5	33	12.4	29	2.5	117	8.3	(11)	(1.6)
Net Profit	27	1.6	86	3.6	(182)	(8.9)	20	2.2	12	2.9	142	5.8	25	9.4	22	1.9	90	6.4	(8)	(1.2)

*The information contained in this schedule relates to operations for the 10 months ended October 31, 1966.

December 1, 1966

3. DIVIDENDS RECEIVED FROM SUBSIDIARY COMPANIES
1960-1965

($000)

1960	$
1961	56
1962	843
1963	1,051
1964	1,474
1965	3,275

4. SUMMARY OF BALANCE SHEETS 1960-65

1960 – 1965
($000)

Assets	1960	1961	1962	1963	1964	1965
Current Assets						
Cash	$ 23	$ 105	$ 283	$ 15	$ 14	$ 1,520
Gov. of Canada Treasury Bills	—	598	—	—	850	200
United States Deposit Receipts	—	—	—	1,000	—	5,800
Receivables —Customers	1,334	1,293	1,574	2,099	1,803	1,247
—Parent Company	—	—	—	1,102	1,457	—
—Employees re Canada Savings Bond	123	110	104	116	104	93
—Affiliated Companies	—	67	19	—	—	—
Inventories	4,046	3,559	4,712	3,627	3,955	3,659
Total Current Assets	5,526	5,732	6,692	7,959	8,183	12,519
Prepaid Expenses	173	148	196	207	317	228
Investments in and Advances to Subsidiaries	1,938	1,722	1,724	1,423	1,177	1,221
Property Plant and Equipment	9,812	9,955	10,058	10,394	10,624	11,036
Less Accumulated Depreciation	4,970	5,441	5,866	6,287	6,669	6,929
	4,842	4,514	4,192	4,107	3,955	4,107
Goodwill	46	46	46	46	46	46
Total Assets	$ 12,525	$ 12,162	$ 12,850	$ 13,742	$ 13,678	$ 18,121
Liabilities						
Current Liabilities						
Bank Overdraft	$ 24	$ —	$ —	$ 591	$ 380	$ 344
Notes Payable	—	—	150	—	—	—
Accounts Payable and Accrued Expenses	1,042	1,144	1,598	1,297	1,354	1,302
Accrued Sales and Other Taxes	140	179	180	203	209	162
Income Taxes	892	542	724	749	509	734
Current Installment First Mortgage Bond	146	146	—	104	165	164
Trade Payables—Affiliated Companies	13	62	11	62	26	35
Total Liabilities	2,257	2,073	2,663	3,006	2,643	2,741
Payable to Subsidiaries	—	100	58	71	246	47
Due to Parent Company	546	715	—	—	—	—
5% First Mortgage Sinking Fund Bonds	1,015	850	681	520	355	190
Accumulated Tax Reductions Applicable to Future Years	268	195	191	145	134	134
Shareholders Equity						
Capital Stock—Authorized and Issued 14,255 shares, par value $100	1,426	1,426	1,426	1,426	1,426	1,426
Earned Surplus						
Reserve for Dividend Tax	266	292	496	658	753	1,493
Reserve for Contingencies	105	105	105	105	105	212
Unappropriated	6,642	6,406	7,230	7,811	8,016	11,878
Total	7,013	6,803	7,831	8,574	8,874	13,583
Total Shareholders Equity	8,439	8,229	9,257	10,000	10,300	15,009
Total Liabilities	$12,525	$ 12,162	$ 12,850	$ 13,742	$ 13,678	$ 18,121

5. RATE OF RETURN ON INVESTMENT*
1960-1965

1960	12.0%
1961	8.1
1962	10.6
1963	11.8
1964	9.2
1965	7.2

*Profit after tax expressed as a percent of shareholders' equity.

6. OCCASIONS ON WHICH COLGATE-PALMOLIVE LIMITED, CANADA CALLED ON INTERNATIONAL HEADQUARTERS PERSONNEL—1965.

1. 11 Canadian personnel spent a total of 120 days in the United States at International Headquarters, on behalf of the Canadian Company.

2. 43 International and Corporate personnel spent 72 days in Canada on our behalf.

3. 43 Research and Development Releases from International Headquarters to the Canadian Company.

4. Canada requested information and service on 230 occasions for Purchasing.

5. 314 telephones calls between Toronto and New York relating to management matters.

6. The Canadian Company's New Products Department made 63 written requests to New York for information.

7. 344 reports from New York Market Research Department to the Canadian Company.

8. 50 recaps on New Products activity from New York to Canada.

9. 175 sales bulletins from New York to Canada.

10. 82 reports or letters from Research & Development centres in New Brunswick, New Jersey, England, France and Mexico to Canadian Company.

11. 4 reports from International Traffic to Canada.

12. 72 Industrial Engineering reports to Canadian Company.

13. 40 Central Engineering reports to Canadian Company.

14. 37 Circular Letters from New York Accounting to Canadian Company.

COUVRETTE & PROVOST LTÉE

(*Proceedings No. 12, Pages 810-817*)

Supplementary information supplied by the Company arising out of their hearing before this Committee on October 27, 1966:

1. Contrat de franchise.

CONTRAT DE FRANCHISE

ENTRE

COUVRETTE & PROVOST LIMITÉE

Corporation légalement incorporée en vertu de la Loi des Compagnies de la Province de Québec ayant son bureau-chef et sa principale place d'affaires à Montréal, ci-après désignée comme étant LA COMPAGNIE

ET

.....

Marchand-Détaillant, faisant affaires sous le nom et raison sociale de:

.....

Au n°: Rue Ville

ci-après désigné comme étant LE DÉTAILLANT

En considération de la demande d'admission dûment acceptée du DÉTAILLANT ci-haut désigné, LA COMPAGNIE accorde par les présentes la franchise ..... concédant les droits ci-après décrits et aux conditions ci-après déterminées:

LA COMPAGNIE s'engage

1. A reconnaître M. ....
(Nom du commerce)

Comme un MEMBRE CERTIFIÉ DU .....
(adresse) (rue et ville)

N° Tél. .....

Groupe .....

et à lui conférer tous les avantages et privilèges dévolus à chacun des membres de ce groupe, quant aux achats et services provenant soit de l'entrepôt, de la Compagnie, soit directement par «drop shipment».

2. A mettre à sa disposition un service rationnel de mise en marché et d'approvisionnement des produits et articles d'épicerie, de viandes et de fruits et légumes et autres.

3. A lui fournir les services de techniques et spécialistes en alimentation et en promotion de ventes (merchandising) et de supervision adéquate selon les politiques du groupe.

4. A lui accorder les bénéfices a) de rabais b) d'escomptes d'achats sur pains, gâteaux, biscuits et autres articles suivant les taux communiqués dans les bulletins transmis périodiquement.

5. A lui transmettre des «communiqués» sur les prix et approvisionnements des divers produits d'épicerie et de viandes, de fruits et légumes, de produits laitier, etc.... environ 8 jours avant la date à laquelle ces prix seront communiqués au public par voie d'annonces.

6. A lui assurer des promotions de ventes et de la publicité de manière à rendre son commerce compétitif.

7. A lui assurer l'enseigne du groupe aux conditions du contrat de location ci-annexé.

Le Détaillant s'engage:

1. A acheter tous ses produits et aliments d'épicerie de LA COMPAGNIE.

2. A suivre d'une façon générale les directives et les conseils de LA COMPAGNIE.

3. A opérer son magasin d'une façon efficace et attrayante suivant les normes établies par le groupe.

4. A apposer à l'extérieur de son magasin l'enseigne officielle et à signer à cet effet le contrat de location d'enseigne annexé au présent contrat.

5. A respecter scrupuleusement pendant toute la période d'affiliation les prix de vente établis et annoncés par les circulaires et affiches de vitrines et à respecter les spéciaux et les étalages obligatoires du groupe et à cet effet:

a) A participer au coût de la franchise au tarif suivant: $ par semaine.

Cette prestation publicitaire assure les services de supervision complets et les autres services offerts par le groupe. Elle lui permet en outre de signer les franchises séparées des Programmes de périssables et autres offerts par la Compagnie aux taux de ces programmes.

b) A exhiber régulièrement les affiches de vitrines et cartes de prix fournies par le groupe.

c) A distribuer à sa clientèle toutes les circulaires qui lui seront livrées par LA COMPAGNIE conformément à la clause 5 (a).

d) A suivre les promotions du groupe.

e) Lors de l'ouverture du magasin sous le nom de à se servir de la publicité spéciale pour son établissement suivant les normes et recommandations de LA COMPAGNIE comme suit:
Une circulaire spéciale de 4 pages et à défrayer le coût de l'ouverture après entente avec La Compagnie, moins la contribution de la Compagnie ($50.)

6. A faire les étalages obligatoires dans son magasin chaque semaine conformément à la publicité, aux affiches et cartes d'étalages et à mettre en évidence les panneaux et cartes-réclames fournis ainsi que les produits spéciaux annoncés.

7. A vendre et à tenir en magasin tous les produits et articles privés vendus sous *la marque privée du groupe* et distribués par LA COMPAGNIE, exclusivement pour les MEMBRES

du Groupe .....

CONTRAT DE LOCATION D'ENSEIGNE

GROUPE .....

ENTRE

COUVRETTE & PROVOST LIMITÉE,

Corporation légalement incorporée en vertu de la Loi des Compagnies de la Province de Québec, ayant son bureau-chef et sa principale place d'affaires à Montréal.

ci-après désignée comme étant le LOCATEUR

ET

.....

détaillant faisant affaires sous les nom et raison sociale de

.....

.....

Au n°: Rue Ville

ci-après désigné comme étant LE LOCATAIRE

1. LE LOCATAIRE déclare par les présentes LOUER du LOCATEUR pour toute la durée de son affiliation, jusqu'à l'expiration de cette affiliation pour quelque cause que ce soit, l'enseigne officielle ..... officiellement assignée par le locateur.

2. LE LOCATAIRE reconnaît au LOCATEUR un loyer pour l'usage de ladite enseigne comme étant partie intégrante du coût hebdomadaire de la franchise d'épicerie, la propriété de l'enseigne du groupe actuellement installée ou à être posée.

3. L'entretien et les frais d'assurance de ladite enseigne devant être à la charge du LOCATEUR.

4. LE LOCATAIRE toutefois devra agencer l'extérieur de son magasin et faire installer les conduits de fils électriques requis à ses frais de même qu'il assumera les frais de l'installation complète de l'enseigne suivant les directives et recommandations du poseur d'enseignes.

5. LE LOCATAIRE reconnaît que LE LOCATEUR est et restera toujours le seul et unique propriétaire de ladite enseigne et qu'il aura le droit de l'enlever dès que LE LOCATAIRE aura terminé, résilié ou perdu son affiliation au groupe ..... ou de la remplacer par une enseigne équitable aux mêmes termes et conditions selon la politique du locateur.

6. Le locataire reconnaît également que ce contrat annule tout autre contrat ou entente signée ou verbale passée antérieurement avec le locateur ou autre grossiste maintenant affilié au locateur relativement à l'enseigne.

7. Au cas d'une démission du groupe ..... par le locataire, celui-ci s'engage à défrayer le coût de l'enlèvement de l'enseigne.

En foi de quoi, les parties ont signé à .....

ce ..... jour de ..... 196...

.....

Le locateur

.....

Le locataire.

DURÉE DU CONTRAT

8.

a) Le présent contrat pourra être résilié de part et d'autre par un avis écrit de

30 JOURS

à être donné avant la date d'expiration, sauf que LA COMPAGNIE pourra toujours en outre suspendre immédiatement tous ses services à un membre jugé indésirable si celui-ci agissait à l'encontre des droits et intérêts des autres membres du groupe .....

b) Dans le cas de résiliation de la présente «franchise» LE DÉTAILLANT cessera immédiatement de faire partie du groupe .... et du même coup perdra toute autre franchise spéciale de viandes, fruits et légumes, produits laitiers ou autres, et ce, immédiatement et LA COMPAGNIE aura le droit d'aller chercher toutes les marchandises identifiées sous sa marque privée ou ses marques privées contre remboursement au détaillant au prix coûtant du marché et de récupérer toute documentation et effets relatifs aux franchises spéciales accordées sous contrat séparé. Le détaillant devra acquitter en outre le coût de l'enlèvement de l'enseigne du groupe.

c) Advenant un changement de propriétaire, les privilèges du groupe ne seront transférables qu'après acceptation du nouveau détaillant par LA COMPAGNIE.

d) Le détaillant demeure libre en tout temps de changer de groupe au sein de la Compagnie, mais dans ce cas il devra 1) se conformer à la clause 8 (a) et 2) signer un autre contrat pour le nouveau groupe choisi.

e) Le grossiste se réserve en outre le privilège de suggérer au détaillant de changer de groupe aux conditions de la clause 8 (d).

f) Le détaillant qui résilie librement ou autrement le présent contrat a toujours le privilège de demeurer client-acheteur de la Compagnie à condition de satisfaire aux politiques de ventes et administratives officiellement connues pour cette catégorie de clients.

9. Le détaillant reconnaît que le présent contrat annule tout autre contrat ou toute entente verbale ou écrite passée antérieurement avec la Compagnie ou autre grossiste maintenant affilié à la Compagnie.

.....

Témoin: pour La Compagnie:

.....

Témoin: Le détaillant:

Signé en double exemplaire et librement à .....

ce ..... jour de ..... 196....

2. Franchise du groupe Champion.

FRANCHISE DU GROUPE CHAMPION

Contrat de franchise entre Couvrette & Provost Ltée., compagnie légalement incorporée en vertu de la Loi des Compagnies de la Province de Québec désignée comme grossiste.

ET

.....

Marchand-détaillant faisant affaires sous le nom et raison sociale de

.....

Au No:— Rue Ville Tél.

Ci-après désigné étant le détaillant. En considération du désir exprimé par le détaillant de recevoir certains services spécifiques ci-après désignés, le grossiste lui accorde la franchise CHAMPION. Le grossiste s'engage à:—

1. Fournir au détaillant un écusson (décal) à l'effigie du groupe CHAMPION; c'est-à-dire une identification officielle.
2. Permettre au détaillant de bénéficier des escomptes d'achats de certains fournisseurs sur des item où il y a des escomptes ou ristournes (1.1. biscuits, pain, etc.)
3. Fournir les marques privées jugées nécessaires au progrès du détaillant. (1.1. pain, café, etc.)
4. Fournir chaque semaine un minimum de quatre (4) affiches de vitrines avec quatre (4) cartes de prix sur des item d'épicerie afin d'aider le détaillant à mousser ses ventes.
5. Préparer à l'intention du détaillant un bulletin hebdomadaire d'informations sur les nouveaux item, les changements de prix, les spéciaux disponibles chez le grossiste.
6. Mettre à la disposition du détaillant CHAMPION un bottin de commande si désiré pour l'aider à mieux préparer sa commande.

LE DÉTAILLANT S'ENGAGE À:—

1. Placer l'écusson officiel CHAMPION bien en évidence dans la porte de son magasin, condition exigée par les fournisseurs pour lui assurer les escomptes sur certaines marchandises.
2. Suivre les instructions et la politique du grossiste en ce qui concerne les commandes, les livraisons des marchandises, les spéciaux, etc.
3. Acquitter la somme de $1.00 par semaine selon le mode de facturation en vigueur chez le grossiste pour les services reçus.

LE DÉTAILLANT RECONNAÎT QUE LA PRÉSENTE ENTENTE:—

1. Annule toute autre entente ou contrat écrit ou verbal, antérieurement passé avec le grossiste ou autre entreprise maintenant affilié.
2. Peut-être révoquée, annulée avec avis de part et d'autre de 30 jours par écrit. Dans ce cas le détaillant devra enlever l'écusson CHAMPION et le grossiste avisera les fournisseurs que le détaillant n'a plus droit aux privilèges qui lui étaient accordés. De plus le grossiste discontinuera les services du groupe CHAMPION ci-haut mentionnés immédiatement. Le détaillant devra acquitter sa cotisation hebdomadaire de $1.00 pour les services rendus durant le mois de l'avis et jusqu'à expiration de l'entente.

En foi de quoi les deux parties ont signé une double copie ou contrat.

Ce ..... jour de ..... 196..

COUVRETTE & PROVOST LTÉE.

MARCHAND-DÉTAILLANT

SU-1076

3. Laid down cost ex. our warehouse docks for several specified food commodities.

PRIX DE REVIENT EX-QUAIS RECEPTION NOTRE ENTREPÔT.

LAID DOWN COST EX OUR WAREHOUSE RECEIVING DOCKS.

		1 September "1964"	1 September "1965"	1 September "1966"
Clover Leaf Pink salmon	48 × ½ lb.	$13.40	$14.90	$15.90
Domestic Shortening	36 × 1 lb.	$11.98	$12.70	$13.06
Five Roses Flour	10 × 5 lbs.	$ 4.65	$ 4.65	$ 4.85
Christie Premium soda crackers	12 × 1 lb.	$ 3.66	$ 3.75	$ 3.75
Granulated sugar	10 × 5 lbs.	$ 4.68	$ 3.50	$ 3.40
Clover Crest No. 1 white Honey past tin	24 × 2 lbs.		$12.90	$13.80
Clover Crest No. 1 white Honey past plastic	12 × 2 lbs.		$ 6.60	$ 7.05
Mont-Rouge Apple juice	24 × 20 on.	$ 3.30	$ 3.30	$ 2.80
Libby Orange juice	24 × 20 on.	$ 6.16	$ 4.03	$ 4.02
Aylmer Bartlett pears	24 × 15 on.	$ 6.15	$ 6.11	$ 6.38
Aylmer Peaches	24 × 15 on.	$ 4.65	$ 5.15	$ 4.98
Del Monte Pineapple	24 × 20 on.	$ 4.20	$ 3.98	$ 4.02
Australian Raisins	24 × 1 lb.	$ 6.16	$ 6.26	$ 6.26
Aylmer Tomatoes	24 × 28 on.	$ 6.42	$ 6.42	$ 6.67
Aylmer Peas	24 × 10 on.	$ 3,34	$ 3.34	$ 3.55
Aylmer Cream corn	24 × 20 on.	$ 4.61	$ 3.96	$ 4.07
Heinz Strained baby foods tin	24 × 4¾ on.	$ 2.22		
Heinz Strained baby foods jars	18 × 4¾ on.		$ 1.93	$ 2.05
Libby D. B. Beans with pork	24 × 15 on.	$ 3.65	$ 3.67	$ 4.60
Aylmer Vegetable soup	48 × 10 on.	$ 5.30	$ 5.30	$ 5.30
Libby Tomato juice	24 × 20 on.	$ 3.45	$ 3.65	$ 3.32
Heinz Tomato ketchup	24 × 11 on.	$ 5.15	$ 5.15	$ 5.35
Duncan Hines Cake mixes	12's	$ 4.80	$ 4.70	$ 4.70
Kraft Cheese sliced	12 × ½ lb.	$ 3.50	$ 3.75	$ 3.88
Margarine Mom	36 × 1 lb.	$ 9.00	$10.16	$11.52
Miracle Whip Salad dressing	12 × 16 on.	$ 4.19	$ 4.34	$ 4.34
Kellogg Corn flakes	36 × 8 on.	$ 6.62	$ 6.62	$ 6.62
Catelli Macaroni	24 × 1 lb.	$ 4.22	$ 3.92	$ 4.12
Marquette Strawberry jam	12 × 24 on.	$ 5.25	$ 5.25	$ 5.25
Salada Tea bags orange pekoe	24 × 60's	$17.52	$17.52	$17.52
Maxwell Coffee reg. bags	12 × 1 lb.	$ 9.96	$ 9.96	$ 9.96
Maxwell Instant coffee jars	6 on.	$27,50	$26.30	$26.30
York Peanut butter ice box	12 × 16 on.	$ 5.08	$ 5.08	$ 5.08
Habitant Sweet mixed pickles	12 × 16 on.	$ 3.14	$ 3.14	$ 3.48
Jello Jelly powder	36 × 3 on.	$ 3.50	$ 3.50	$ 3.50
Baker's Unsweetened chocolate	8 on.	$12.00	$12.00	$12.00
Carnation Evaporated milk	48 × 16 on.	$ 6.85	$ 7.10	$ 7.35
Crino Powder milk	12 × 3 lbs.	$11.25	$12.25	$12.25

GENERAL FOODS LIMITED

Proceedings No. 17, pages 1206-1243

Supplementary information supplied by the Company arising out of their hearing before the Committee on November 10, 1966:

1. Hostess Food Products—Six-year Profit and Loss Table

Fiscal Years Ended March 31

($000)

	1961	1962	1963	1964	1965	1966
Units Sold (Millions)	.8	1.0	1.2	1.1	1.0	1.1
Gross Sales	5336	6502	7257	7487	7397	7951
Transportation	335	410	445	336	356	365
Warehousing	8	7	36	112	88	83
Cash Discounts	19	29	33	23	26	32
Sales Tax	..	..	7	5	6	9
Damaged Merchandise ...	32	28	33	47	33	23
*Other Allowances	92	150	152	464	400	291
Net sales	4850	5878	6551	6500	6488	7148
Cost of Goods Sold						
Raw Material	1446	1539	2123	1873	1896	1964
Packing Material	1231	1702	1659	1491	1442	1479
Labour	574	731	957	901	826	905
Overhead	586	910	783	761	702	846
Total Cost of Goods Sold	3837	4882	5522	5026	4866	5194
Gross Margin	1013	996	1029	1474	1622	1954
Advertising	322	254	90	304	197	69
Promotions	57	225	264	115	88	243
Selling	446	820	744	1414	1182	1245
Administration	242	75	43	86	105	209
Income Taxes	(28)	(11)	..	..	..	..
Profit After Income Taxes	(26)	(367)	(112)	(445)	50	188
% of Gross Sales	(0.5)	(5.6)	(1.5)	(5.9)	0.7	2.4

NOTE: Other Allowances *Estimated For Years 1961 Through 1965.

2. Current cost of instant coffee—in relationship to the price of green coffee beans.

Our data on the actual prices that we have paid for green coffee beans indicates that this cost has increased a little more than 40% since 1961.

Since 1961, our wholesale price of Instant Maxwell House Coffee has gone up approximately 10%. To be specific, the selling price of a 6 oz. jar has increased 21% and the price of a 10 oz. jar has decreased 1%.

Our ability to lower the relative price of instant coffee stems from new technology developed at our coffee plant in LaSalle, Quebec.

3. Total coffee profit after tax, as a percent of gross sales:

1961	1962	1963	1964	1965	1966
3.8%	6.1%	6.8%	8.5%	6.0%	6.5%

It should be explained that the profit in 1961 was abnormally low and resulted from heavy start-up costs at our new plant in LaSalle.

4. The Company's "cents-off policy" for the past year

	National (Ex. B.C.)		B.C.	
	6-oz.	10-oz.	6-oz.	10-oz.
Nov. 10/65-Feb. 18/66	14¢	24¢	20¢	30¢
Feb. 18/66-Oct. 24/66		No Off Label Deals		
Oct. 24/66-Nov. 24/66	20¢	30¢	20¢	30¢

* 14¢ and 24¢ means the actual jar label is printed "14¢ off".

GERBER PRODUCTS OF CANADA, LTD.

Proceedings No. 13; pages 881-916

Supplementary Information Supplied by the Company Arising out of their Hearing Before the Committee on November 1, 1966:

1. SUMMARY OF OPERATIONS

Fiscal Years Ended March 31

000's Omitted	1961		1962		1963		1964		1965		1966	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Gross Sales	$4,123	100.0%	$4,248	$100.0%	$4,899	100.0%	$5,140	100.0%	$5,737	100.0%	$6,171	100.0%
Discounts & Allowances	*167*	*4.1*	*282*	*6.6*	*274*	*5.6*	*159*	*3.1*	*183*	*3.2*	*254*	*4.1*
Net Sales	3,956	95.9	3.966	93.4	4,625	94.4	4,981	96.9	5,554	96.8	5,917	95.9
Cost of Sales	2,337	56.7	2,544	59.9	3,248	66.3	3,340	65.0	3,630	63.3	3,853	62.4
Gross Margin	1,619	39.3	1,422	33.5	1,378	28,1	1,641	31.9	1,924	33.5	2,064	33.4
Expenses												
Marketing Expense												
Direct Sales Force	602	14.6	594	14.0	591	12.1	541	10.5	560	9.9	628	10.2
Media Advertising	294	7.1	314	7.4	387	7.9	380	7.4	323	5.6	325	5.3
Co-operative Advertising	92	2.2	82	1.9	105	2.1	133	2.6	140	2.4	164	2.7
Direct Mail & Other Promotions	405	9.8	258	6.1	175	3.6	105	2.0	146	2.5	148	2.4
General Marketing	110	2.7	114	2.7	110	2.2	115	2.2	104	1.8	125	2.0
Total Marketing Expense	1,503	36.5	1,362	32.1	1,368	27.9	1,275	24.8	1,272	22.2	1,390	22.5
Transportation & Warehousing												
Transportation	166	4.0	178	4.2	195	4.0	167	3.2	170	3.0	171	2.8
Plant Warehouse	41	1.0	56	1.3	70	1.4	65	1.3	83	1.4	101	1.6
Public Warehouses	41	1.0	35	.8	22	.4	4	.1	—	—	—	—
Total Transportation & Warehousing	248	6.0	269	6.3	287	5.9	236	4.6	253	4.4	273	4.4
Administrative & General Expense	191	4.6	275	6.5	226	4.6	229	4.5	233	4.1	242	3.9
Other Expenses (Net)	3	.1	13	.3	11	.2	75	1.4	76	1.3	65	1.1
Non-Current Expense (Interest Applicable to Prior Years)	—	—	—	—	—	—	—	—	72	1.2	—	—
Total Expenses	1,945	47.2	1,918	45.2	1,892	38.6	1,815	35.3	1,906	33.2	1,970	31.9
Pre-Tax Earnings (Loss)	$(326)	(7.9)%	$(496)	(11.7)%	$(515)	(10.5)%	$(174)	(3.4)%	$ 18	.3%	94	1.5%

2. BALANCE SHEET AS AT MARCH 31

000's Omitted	1961	1962	1963	1964	1965	1966
ASSETS						
Current						
Cash	15	11	37	38	43	25
Accounts Receivable	146	317	162	282	314	297
Inventories:						
Finished Products	1,132	1,276	1,616	1,161	1,394	1,726
Raw Materials & Supplies	158	196	175	215	225	305
Total Inventories	1,290	1,472	1,791	1,376	1,619	2,031
TOTAL CURRENT ASSETS	1,451	1,800	1,990	1,697	1,976	2,353
Other Assets						
Advances to employees (secured)	28	28	23	20	9	8
Sundry Rec. and Prepayments	14	26	32	26	42	29
Property, Plant and Equipment						
Buildings and Equipment	1,309	1,537	1,795	1,863	2,007	2,044
Less: Allowance for depreciation	581	637	702	796	858	908
	728	900	1,093	1,067	1,149	1,136
Land	26	26	26	26	26	26
Leasehold improvements	3	3	2	–0–	–0–	–0–
	$2,250	$2,783	$3,167	$2,836	$3,202	$3,551
LIABILITIES & SHAREOWNERS' EQUITY						
Current Liabilities						
Bank loan	310	350	500	300	600	762
Accounts Payable	208	258	180	192	251	339
Salaries & Wages Payable	16	29	31	36	29	33
Gerber Products Co.—Parent: Account Payable	10	86	11	36	32	34
Notes Payable	1,700	950	1,850	1,850	1,850	–0–
TOTAL CURRENT LIABILITIES	2,244	1,673	2,572	2,414	2,762	1,168
Shareowners' Equity						
Capital Stock:						
Preferred—5% redeemable par value $10	600	600	600	600	600	600
Common—no par value	50	1,650	1,650	1,650	1,650	3,500
Surplus (Deficit) from operations	(644)	(1,140)	(1,655)	(1,829)	(1,811)	(1,717)
	$2,250	$2,783	$3,167	$2,836	$3,202	$3,551

NOTE: Arrears of dividends amount to $288 for the cumulative period from date of issue to March 19, 1962, when preferred shares were classified as non-cumulative.

Table 3

3. Customer Price Schedule

Effective August 15, 1966

		250 Cases & Up	Less Than 250 Cases
Strained Foods	24 × 4¾	2.74	2.84
Junior Foods	24 × 8	3.89	3.99
Meat Dinners	24 × 4¾	4.31	4.41
Meat and Egg Yolks	24 × 3½	5.37	5.47
Strained Juices—Tin	24 × 4¾	2.74	2.84
Strained Orange Juice—Tin	48 × 4¾	5.48	5.58
Junior Orange Juice—Tin	24 × 6	3.12	3.22
Cereals—8 oz.	12 × 8	2.90	3.00
Cereals—16 oz.	12 × 16	4.90	5.00
*Fruit Cereals—8 oz.	12 × 8	4.50	4.60
Teething Biscuits	12 × 4	2.95	3.05

Introductory allowance of 10% on orders taken through September 16, 1966 for prompt shipment.

All prices are delivered to customers—prepaid.

Terms: 2 per cent cash discount—10 days from date of invoice

Rebates:

Truckload: 1 per cent allowance on all single order shipments of 30,000 lbs. and over shipped to one address from Niagara Falls Plant.
Payments to be made by cheque, through Sales Force, quarterly.

Volume Incentive: 1 per cent allowance to direct buyes of $10,000 or over in calendar year. Purchases of branches of corporations or recognized members of a corporately owned group may be pooled to qualify. (This does not extend to independent companies affiliated for buying purposes only.) Payments to be made by cheque, through Sales Force, as soon as possible after December 31 in each year. Interim advance payments may be made on ½ yearly basis to certain customers, on request of General Sales Manager, after June 30, 1966.

August 8, 1966

cc. J. Suerth, A. Frens, C. Smith, D. Jeannero, G. Johnson, J. Ryan, R. Holman (3), J. Merrett, R. Yaworowski (5), A. Peacey (5).

KELLOGG COMPANY OF CANADA LIMITED

Proceedings No. 7, Pages 1171-1205

Supplementary information supplied by the Company arising out of their hearing before the Committee on November 10, 1966:

1. A statement from the President relative to pricing and advertising of products (excerpts from letter dated December 2, 1966).

December 2, 1966

Dr. R. W. James
Special Assistant
Special Joint Committee of the Senate
and House of Commons on Consumer Credit
Room 575F
Centre Block
Parliament Buildings
Ottawa, Ontario

On November 4, 1966 we provided you with some of the additional information which the Joint Committee requested at the hearing on November 10, 1966. On returning from my previously scheduled trips, I find that we have been able to put together more of the additional information requested and in the interest of giving the Joint Committee as much as we can as soon as possible, we are including the information now available in this letter.

Our competitors as well as ourselves must keep their customers informed as to the prices they offer their products and we have encountered no difficulty in obtaining information as to our competitors' prices from customers. Our salesmen provide us with periodic retail price checks as they are needed.

Generally when pricing products for sale, there are a number of factors which we must consider. Each situation is different into itself and no hard fast policy can be used in determining the selling price.

In arriving at a selling price, we must take into consideration the range of prices at which similar or somewhat similar products are sold. We must consider the competitive price relationship between our product and the dissimilar products which can be used for the same purpose, specifically nutrition at breakfast, in view of our hope that we will be able to persuade consumers to use our products instead of dissimilar products. We must consider the volume which we can hope to achieve at various possible prices with varying amounts of advertising and promotion. One of the most important considerations is the estimated cost of ingredients and the estimated effect on our total cost picture of the cost of producing the particular product under consideration. These factors and other factors will vary from one product to another and each pricing decision is made on the basis of how all the factors involved fit together. We must be satisfied that all of these factors would permit the product to be an eventual profit producer over an extended marketing experience.

I stated to the Committee on November 10 that we discontinued advertising on Kellogg's Krumbles in 1959, Kellogg's Pep in 1961 and Kellogg's Sugar Smacks in 1964. Our price to our customers in 1959 for a 9½ ounce package of Krumbles was 19.1¢. In 1961 our selling price for a 12 ounce package of Pep was 24.1¢, and in 1964 the selling price for an 8 ounce package of Sugar Smacks was 31.1¢. We must emphasize here that these products were not discontinued, but rather the advertising against these items was withdrawn.

Our knowledge of the market indicated an apparent need for additional pre-sweetened items and in 1960 Cocoa Krispies in a 9½ ounce package was introduced at a price of 25.8¢ per package. In 1961 another pre-sweetened

produce Sugar Stars was introduced in 8 and 11 ounce packages at 24.1¢ and 34.1¢ per package. 1964 saw the introduction of Froot Loops, again a pre-sweet item, in 7 and 11 ounce packages at a 28.7¢ and 43.5¢ price.

We have attempted to impress on you the importance of new products to our industry and more particularly the importance of new pre-sweetened introductions. With this apparent demand by the market these products would have been introduced regardless of what other marketing or advertising adjustments we might have made.

It is important to realize that the introduction of these three new products had no connection with our decision to discontinue advertising on the three older products. The three new products would have been introduced whether or not the three older products had shown increasing, decreasing, or static sales with or without advertising.

There remain a few questions yet unanswered. We have been having considerable difficulty in determining how to respond properly without being misleading. We will provide you with what further information we can develop as soon as possible.

G. D. Robinson,
President

2. Gross Dollar Sales 1958-1965.

Kellogg Company of Canada, Limited
London, Ontario
Executive Offices

November 14, 1966

Dr. R. W. James
Special Assistant
Special Joint Committee of the Senate
and House of Commons on Consumer Credit
Room 575F
Centre Block
Parliament Buildings
Ottawa, Ontario

We list for your information Kellogg Company of Canada, Limited Gross Dollar Sales 1958 through 1965 as requested Thursday, November 10.

GROSS DOLLAR SALES 1958-1965

1958	$18,844,441
1959	19,134,609
1960	19,801,664
1961	20,306,043
1962	19,968,590
1963	24,178,847
1964	25,845,598
1965	26,600,139

We were anxious to get this information off to you before leaving London.

G. D. Robinson,
President.

TABLE 1

ADVERTISING AND PROMOTION EXPENSE

1958–1965

	1958	1959	1960	1961	1962	1963	1964	1965
Media:								
Television	978,028	1,434,191	1,140,823	1,225,265	1,792,836	1,807,171	2,076,790	2,166,891
Radio	244,046	214,834	267,261	348,906	396,847	310,765	259,799	198,153
Print	471,496	657,725	478,074	425,958	573,795	438,368	563,849	721,545
Outdoor	—	—	30,152	49,570	62,532	—	—	—
TOTAL	1,693,570	2,306,750	1,916,310	2,049,699	2,826,010	2,556,304	2,900,438	3,086,589
In-store Display Material	93,215	73,853	86,237	96,637	45,650	68,992	53,389	51,760
Promotion	622,780	548,716	678,126	496,739	405,457	497,849	480,142	410,445
Other	117,499	115,965	176,481	315,947	588,764	235,938	285,943	219,714
TOTAL ADVERTISING & PROMOTION	2,527,064	3,045,284	2,857,154	2,959,022	3,865,881	3,359,083	3,719,912	3,768,508

RATIO TO GROSS SALES

Media:								
Television	5.19	7.49	5.76	6.03	8.98	7.47	8.04	8.15
Radio	1.30	1.12	1.35	1.72	1.99	1.29	1.00	.74
Print	2.50	3.44	2.42	2.10	2.87	1.81	2.18	2.71
Outdoor	—	—	.15	.24	.31	—	—	—
TOTAL	8.99	12.05	9.68	10.09	14.15	10.57	11.22	11.60
In-Store Display Material	.49	.39	.43	.48	.23	.29	.21	.19
Promotion	3.30	2.87	3.42	2.45	2.03	2.06	1.86	1.54
Other	.63	.60	.90	1.55	2.95	.97	1.10	.84
TOTAL ADVERTISING & PROMOTION	13.41	15.91	14.43	14.57	19.36	13.89	14.39	14.17

25342—10½

4. Cost of Materials for packing Kellogg Products (shipping containers, cartons, liners, glue.)

COST OF MATERIALS FOR PACKING KELLOGG PRODUCTS
SHIPPING CONTAINERS, CARTONS, LINERS, GLUE

Year	Cost	Percentage To Gross Sales
1958	$2,245,111	11.91%
1959	2,310,070	12.07
1960	2,311,378	11.67
1961	2,393,352	11.79
1962	2,275,276	11.39
1963	2,574,936	10.65
1964	2,616,461	10.12
1965	2,462,241	9.26

5. Kellogg's Merchandising Incentive Plan, 1963.

December 1, 1962

TO OUR DIRECT ACCOUNTS:

The Kellogg Company of Canada, Limited, has established a pre-determined sum of money for 1963, from which each Direct Account can benefit in direct proportion to the value of his purchases.

This Plan is designed to provide merchandising dollars to all our direct accounts within the ten provinces of Canada, to stock, promote, and feature Kellogg products during 1963.

The Plan will be in effect for four 3-month periods, during the calendar year January 1, 1963 through December 31, 1963, with the periods defined as follows:

January	1	through	March	31	—	1st period
April	1	through	June	30	—	2nd period
July	1	through	September	30	—	3rd period
October	1	through	December	31	—	4th period

At the end of each period, each direct account's total invoiced dollar purchases will be applied to the total Kellogg dollar sales for the period to determine the exact percentage of our total business produced by each customer. These percentages will be applied to the total Merchandising Incentive Allocation for the period, and will represent the dollars that can be earned by each direct account.

In order to qualify for the dollars that can be earned, it will be necessary for each direct account to provide a minimum of one major Kellogg merchandising feature during each specified period. This feature to be of a type mutually agreed upon by the direct account and the Kellogg Company of Canada, Limited. The Kellogg Company of Canada, Limited, will require Proof of Performance from each direct account at the end of each period.

In that your earnings in the Merchandising Incentive Plan are directly related to your share of Kellogg's total business, your account, by providing complete Kellogg line and package size distribution, can enhance your opportunity of earning the maximum from each period allocation.

Extra volume available by allocating shelf space in your retail outlets, according to consumer movement, will further assist in your participating to the fullest extent in each period.

Any sums earned by our Direct Accounts under this Plan will be paid by cheque as soon as possible upon completion of the period to which they apply.

Any sums earned under this Plan will not be deductible from any invoice payment made by the customer to Kellogg Company of Canada, Limited.

All computations will be made in London including all purchases recorded on our books from the first to the last day of each of our Merchandising Incentive periods.

Kellogg's Merchandising Incentive Plan applies only to the year 1963, and will not be effective for sales invoiced after December 31, 1963, unless otherwise indicated by the Kellogg Company of Canada, Limited.

We reserve the right to change, alter, or discontinue this Plan at any time.

KELLOGG COMPANY OF CANADA, LIMITED
London, Ontario, Canada

6. A statement from the President referring to cost of imports and to return on investment (excerpts from letter dated December 7, 1966).

December 7, 1966

Dr. R. W. James
Special Assistant
Special Joint Committee of the Senate
and House of Commons on Consumer Credit
Room 575F, Centre Block
Parliament Buildings
Ottawa, Ontario

We have found it impossible to provide to you a complete cost breakdown on ten manufactured commodities or package sizes of a particular product.

We are able to determine the ingredient cost, the packaging material cost, and the direct labour costs of each of these ten major products. The remaining items cannot be logically allocated to the individual products. These have already been given to you in our Corporate History Table and represent as a percentage of gross sales:

Manufacturing Salaries, Wages & Fringe	14.21%
Other Manufacturing Costs	5.85
Outbound Freight	4.48
Advertising and Promotion Expenses	14.17
Selling Expenses	2.84
Administrative and General Expenses	1.92

The attached table details the items which can be specifically allocated and we have also listed the unallocable items as they relate to total gross dollar sales.

We have no figures from which we can determine "Return on Investment". More specifically, we have no way of knowing what should be considered to be the investment upon which a return may be determined.

It appears that the Forbes Article which was put before the Committee may have used the historical or book value of assets to arrive at a percentage which they termed "Return on Stockholders Investment" for our Parent Company.

Without being familiar with what guides Forbes Magazine may have been following, we believe that no meaningful results can be arrived at in our situation by comparing our profits and the book value of our assets.

Our depreciable assets have been depreciated in accordance with conservative accounting at maximum available rates and the current book values of those assets do not reflect their present actual value. Land is valued at cost and does not reflect current actual values. Book value does not reflect in any way the substantial but unascertainable value of goodwill which has accumulated by offering high quality products for nearly sixty years to consumers in Canada.

Nor does the book value reflect the again substantial but unascertainable value of a growing organization of trained individuals familiar with their particular function in the total operation. Nor does the book value reflect the technological information and marketing skills developed by the Company over almost sixty years of the production and marketing of cereal.

The value of these huge intangibles is not reflected on our books, but represents the greatest asset of our business.

We, accordingly, think that the matter of return on recorded invested capital is meaningless. We feel the appropriate level of profit is that which is required to maintain the business in a healthy condition, to permit us to replace, at current costs, equipment and buildings originally recorded at cost levels as much as fifty years ago, they wear out and must be replaced in order to continue in business on an efficient basis. This takes into account the changed value of the dollar. As a Company has increased volume, it has increased risks, due to the fact that it is necessary to increase its plant account, its inventories, its work in process, the number of employees and its other manufacturing and distribution expenses.

In summary the book value of the Company does not represent accurately the actual value of tangible assets nor any value for intangible assets and consequently a comparison of book value with earnings will yield a meaningless result.

We are therefore unable to make any determination of what might be considered, with a reasonable degree of reliability, to be our "Return on Investment".

G. D. Robinson,
President.

7. Breakdown of allocable costs ten major products, 1965.

BREAKDOWN OF ALLOCABLE COSTS—TEN MAJOR PRODUCTS

1965

	Corn Flakes	Rice Krispies	Bran Flakes	Sugar Pops	Sugar Smacks	All Bran	Sugar Frosted Flakes	Special K	Froot Loops	Variety
Gross Sales	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Cash Discount	.99	.97	.97	.97	.97	.97	.97	.97	.97	.97
Rebates & Allowances to Customers	3.42	1.03	1.46	3.99	1.95	1.34	1.29	1.89	1.58	1.30
Unsalable Goods	.17	.17	.17	.17	.17	.17	.17	.17	.17	.17
Ingredients	14.00	23.14	13.36	12.82	16.26	13.54	15.77	24.36	17.53	11.35
Packaging Materials	12.69	9.92	10.19	11.03	13.08	8.52	8.70	8.48	10.90	20.85
Direct Labour	3.61	3.53	5.71	4.21	4.04	4.51	4.11	3.31	4.05	13.25

In addition to the above the following items as reported on our Corporate History Schedule cannot be properly allocated:

Manufacturing Salaries, Wages & Fringes (except Direct Labour)	14.21%
Other Manufacturing Costs	5.85
Outbound Freight	4.48
Advertising & Promotion Cost	14.17
Selling Expense	2.84
Administrative & General Expense	1.92
Provision for Income Tax	11.97

LEVER BROTHERS, LIMITED, TORONTO

(Incorporated under the laws of Ontario)
and its subsidiary companies

1. CONSOLIDATED BALANCE SHEET
DECEMBER 31, 1965

LIABILITIES			ASSETS		
Shareholders' equity:			Fixed assets:		
Capital—			Freehold land at cost, buildings and plant (note 4)	28,902,068	
Authorized:			Less accumulated provision for depreciation	15,944,734	$12,957,334
8,000 6% cumulative, non-voting Class A shares of $100 par value each (note 2)					
170,000 ordinary shares of $100 each			Other assets:		
Issued and fully paid:			Investment in shares of other companies (note 1)	2,449,331	
5,100 Class A shares	510,000		Goodwill and trademarks—at cost	2,565,634	5,014,965
125,000 ordinary shares	12,500,000	$13,010,000	Current assets:		
Capital reserves arising out of appraisals of buildings and plant less adjustment arising on revaluation of shares in subsidiaries		1,375,990	Stock in trade at the lower of cost or estimated realizable value	9,728,123	
Profits retained in the business		7,909,203	Trade debtors and payments in advance less provision for doubtful accounts	5,013,795	
		22,295,193	Short term investments—approximates market value	5,695,034	
Long term debt (note 3)—6% sinking fund debentures, Series A, due October 1, 1985		7,700,000	Amounts due from subsidiaries of Unilever Limited	43,085	20,480,037
Minority interest in consolidated subsidiaries		411,787			
Current liabilities and provisions:			On behalf of the Board:		
Bank overdraft	445,271		Director		
Creditors and accrued liabilities (including other taxes payable of $409,532)	4,411,117				
Estimated income taxes payable	1,367,726		Director		
Amounts due to subsidiaries of Unilever N.V.	261,784				
Amounts due to holding company	1,559,458	8,045,356			
		$38,452,336			$38,452,336

Proceedings No. 23, pages

Supplementary information supplied by the company arising out of their hearing before the committee on December 1, 1966:

2. CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED DECEMBER 31, 1965

Net sales		$59,526,116
Cost of sales, selling and administrative expenses exclusive of the items listed below	54,108,141	
Provision for depreciation	1,375,148	
Interest expense net (including $118,058 interest on long term debt and $21,898 interest paid to affiliated companies)	100,999	
Loss on disposal of fixed assets	12,230	55,596,518
Net profit before taxation		3,929,598
Income taxes on profits		1,968,273
Net profit before minority interest and share of profits of non-consolidated subsidiary		1,961,325
Minority interest in profits of subsidiaries		25,039
Net profit before share in profits of non-consolidated subsidiary		1,936,286
Share of profits of non-consolidated subsidiary (note 1)		135,228
Net profit for the year		2,071,514
Balance brought forward from previous year		5,837,689
Balance carried forward to next year		$ 7,909,203

Additional annual consolidated profit and loss accounts, 1960-1964 have been filed with the committee.

3. PAYMENTS TO THE PARENT COMPANY AND AN ASSOCIATED COMPANY FOR TECHNICAL AND SCIENTIFIC SERVICES RENDERED 1960 THROUGH 1965

PAYMENTS TO UNILEVER LIMITED, LONDON, ENGLAND (PARENT COMPANY)

1960	$25,000
1961	25,000
1962	25,000
1963	25,000
1964	25,000
1965	25,000

PAYMENTS TO LEVER BROTHERS COMPANY, U.S.A. (ASSOCIATED COMPANY)

1960	$ nil
1961	nil
1962	162,261
1963	161,462
1964	161,872
1965	161,781

4. COST BREAKDOWN OF SELECTED BRAND PRODUCTS

YEAR 1966

	Breeze Giant	Omo Giant	'all' Regular	Lux Liquid Giant	Wisk Giant	Sunlight Twin Bar	Lux Soap Bath	Dove Soap Regular	Good Luck Margarine
GROSS SALES (*$000's*)	*$1,565*	*1,389*	*784*	*1,045*	*299*	*1,545*	*380*	*878*	*771*
GROSS SALES	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Outward freight & warehousing	5.4	6.6	6.6	4.8	6.0	5.9	3.4	2.3	5.3
Federal sales tax	9.3	9.3	9.3	9.3	9.4	9.3	9.2	9.3	9.3
Cash discount	.8	.7	.8	.8	.7	.8	.8	.8	.9
*Trade and other allowances	3.7	9.4	8.2	5.6	8.0	.7	8.2	3.3	4.3
NET SALES	80.8	74.0	75.1	79.5	75.9	83.3	78.4	84.3	80.2
Purchased materials	46.3	28.2	26.3	19.4	24.4	17.5	16.8	27.3	40.6
Packaging materials	7.2	7.2	7.6	11.0	11.0	4.1	5.8	4.9	8.7
Plant labour	2.7	3.0	2.5	1.9	2.0	5.4	5.2	4.5	5.6
Plant burden	4.8	5.9	5.0	3.1	4.1	9.4	10.3	5.5	7.7
Marketing	7.8	7.8	7.8	8.8	8.7	8.8	8.4	8.5	8.2
Advertising	4.8	16.1	8.4	11.5	—	—	11.6	15.6	10.8
Sales promotions	1.0	1.0	4.4	3.7	.3	.1	1.3	2.3	5.2
Administration	6.5	6.5	6.5	6.8	6.7	6.7	7.4	7.4	5.9
Other expense	.5	.5	.5	.5	.7	.5	.5	.5	.5
Income taxes	—	—	3.2	6.7	9.3	16.0	5.8	4.0	—
PROFIT (LOSS) AFTER TAXES	(.8)	(2.2)	2.9	6.1	8.7	14.8	5.3	3.8	(13.0)

*This caption covers billing credits or reductions in connection with co-operative advertising and merchandising allowances and 'cents off' offers.

NOTE—The above schedule reflects the actual breakdown of commodity costs in the current accounting period. It should be understood that advertising and promotion costs in particular are subject to considerable fluctuation from period to period. For instance, in the current period advertising expenses for both Sunlight Twin Bar and Wisk have been sharply curtailed for corporate purposes.

5. RESEARCH AND DEVELOPMENT, MARKET RESEARCH AND PACKAGING DEVELOPMENT EXPENDITURES 1960 THROUGH 1966

($000's)

	Research & Development	Market Research	Packaging Development	Total Expenditure
1960	$ 143	342	66	551
1961	177	413	99	689
1962	387	534	67	988
1963	428	500	56	984
1964	476	532	57	1,065
1965	542	619	68	1,229
Total expenditures—6 years	$ 2,153	2,940	413	5,506

M. LOEB LIMITED

Proceedings No. 11, pages 665-706

Supplementary information supplied by the Company arising out of their hearing before the Committee on October 25, 1966:

1. Comparison of retail prices-Top Valu vs National Brands

Top Valu Product	Pack	Unit Retail	Brand "A" and Retail		Brand "B" and Retail	
Margarine, parchment	36/1 lb	2/63¢	Monarch	2/73¢	Blue Bonnet	41¢
Margarine, quick colour	36/1 lb	37¢	Blue Bonnet	45¢	Monarch	43¢
Cheese Slices, plain	24/8 oz	35¢	Kraft	41¢	Black Diamond	41¢
Cheese Slices, pimento	24/8 oz	35¢	Kraft	41¢	Black Diamond	41¢
Cheese Slices, plain	12/16 oz	69¢	Kraft	77¢	Black Diamond	75¢
Cheese Spread	12/16 oz	73¢	Kraft	77¢	Black Diamond	75¢
Orange Juice	48/6 oz	2/51¢	Minute Maid	2/61¢	N/A	
Orange Juice	24/12 oz	49¢	Minute Maid	59¢	N/A	
Popping Corn	12/16 oz	18¢	Popeye	19¢	N/A	
Coffee, bean	24/½ lb	44¢	Chase & San	54¢	Maxwell House	54¢
Coffee, bean	24/1 lb	87¢	Chase & San	97¢	Maxwell House	97¢
Coffee, instant	24/2 oz	39¢	Yuban	59¢	Maxwell House	57¢
Coffee, instant	12/6 oz	89¢	Maxwell House	$1.19	Chase & San	$1.15
Coffee, instant	12/10 oz	$1.35	Maxwell House	$1.89	Chase & San	$1.69
Chocolate, instant	24/16 oz	43¢	Nestle's	59¢	Toddy	49¢
Ketchup	24/11 oz	2/43¢	Aylmer	25¢	Heinz	29¢
Ketchup	12/20 oz	39¢	N/A		Heinz	45¢
Ketchup	24/15 oz	31¢	Heinz	37¢	E. D. Smith	33¢
Mustard	24/6 oz	2/27¢	French's	2/31¢	Heinz	2/31¢
Mustard	12/16 oz	23¢	French's	27¢	Heinz	27¢
Mustard	12/24 oz	31¢	French's	33¢	Heinz	33¢
Vinegar	12/24 oz	25¢	Canada White	27¢		
Vinegar	12/40 oz	31¢	Canada White	33¢		
Vinegar	6/80 oz	55¢	Canada White	57¢		
Vinegar	4/160 oz	83¢	—	—	—	—
Dog Food	48/15 oz	3/32¢	Pard	3/43¢	Dr. Ballards	2/31¢
Dog Food	24/26 oz	2/39¢	Dr. Ballards	2/49¢		
Cat Food	48/15 oz	3/32¢	Puss & Boots	2/39¢		
Pork & Beans	24/20 oz	27¢	Libby's	2/59¢	Clark's	29¢
Pork & Beans	24/28 oz	33¢	Libby's	39¢	Clark's	36¢
Salad Dressing	12/8 oz	25¢	Monarch	27¢		
Salad Dressing	12/32 oz	59¢	Monarch	69¢		
Salad Dressing	12/16 oz	39¢	Monarch	43¢		
Salad Oil	12/16 oz	45¢	Mazola	57¢		
Salad Oil	12/32 oz	81¢	Mazola	$1.01	Monarch	93¢
Lard	36/1 lb	29¢	Tenderflake	31¢	Burn's	33¢
Shortening	36/1 lb	33¢	Monarch	37¢	Crisco	47¢
Table Syrup	12/16 oz	35¢	Old Tyme	39¢	Monarch	35¢
Table Syrup	12/32 oz	—	—	—	—	—
Canned Soft Drinks	24/10 oz	6/49¢	Pepsi	6/59¢		
Macaroni	12/2 lb	39¢	Catelli	43¢		
Spaghetti	12/2 lb	39¢	Lancia	47¢	Catelli, cello	43¢
Wax Paper	24/100 ft	35¢	Cut Rite, box	37¢	Rap Rite, box	35¢
Wax Paper	12/200 ft	63¢	Cut Rite	69¢	Save-All	67¢
Foil Wrap	24/12" × 25 ft.	33¢	Alcan	37¢	Stuart House	37¢
Foil Wrap	12/18" × 25 ft.	67¢	Alcan	69¢	Reynolds	69¢
Lunch Bags	40/25's	2/25¢	Jiffy, 48/20s	15¢	Miracraft, 50/20s	12¢

Top Valu Product	Pack	Unit Retail	Brand "A" and Retail		Brand "B" and Retail	
Peanut Butter	12/16 oz	43¢	Planters	51¢	Squirrel	49¢
Strawberry Jam	12/24 oz	57¢	Aylmer	59¢	St. Williams	59¢
Raspberry Jam	12/24 oz	57¢	Aylmer	59¢	St. Williams	59¢
Apple Sauce	24/15 oz	2/35¢	Allan's	25¢	Scotian Gold	2/37¢
Apple Sauce	24/20 oz	23¢	Scotian Gold	2/41¢	Mitchells	23¢
Bartlett Pears	24/15 oz.	31¢	Aylmer	29¢		
Dessert Pears	24/20 oz	29¢	Kent	35¢		
Fruit Cocktail	24/15 oz	28¢	Aylmer	29¢	Libby's	31¢
Fruit Cocktail	24/20 oz	35¢	Libby's	41¢	Del Monte	37¢
Fruit Cocktail	24/28 oz	47¢	Libby's	49¢		
Red Pitted Cherries	24/15 oz	2/69¢	Aylmer	35¢		
Apple Drink	12/48 oz	35¢	Hi-C	39¢	Del Monte	37¢
Orange Drink, Grape & Tropical Punch	12/48 oz	35¢	Hi-C	39¢	Allen's	37¢
Blended Juice	12/48 oz	47¢			Donald Duck	53¢
Grapefruit Juice	12/48 oz	47¢			Donald Duck	49¢
Orange Juice	12/48 oz	47¢	Donald Duck	55¢		
Apple Juice	24/20 oz	2/35¢	Allan's	2/37¢	Mitchell	2/37¢
Apple Juice	12/48 oz	37¢	Allan's	39¢	Mitchell	39¢
Tomato Juice	24/20 oz	2/33¢	Aylmer	2/37¢	Clark's	2/37¢
Tomato Juice	12/48 oz	35¢	Aylmer	39¢	Clark's	39¢
Orange Drink	6/64 oz	61¢	Coronation	63¢		
Powdered Milk	12/3 lb	$1.09	Milko	$1.29	Carnation	$1.29
Evaporated Milk	48/15 oz	2/37¢	Carnation	3/57¢	Eagle	41¢
Powdered Detergent	10/2 lb	59¢	ABC	69¢	ALL	63¢
Powdered Detergent	8/5 lb	$1.39	ALL	$1.79		
Liquid Detergent	12/24 oz	49¢	Thrift	55¢	Swan	69¢
Asparagus	24/12 oz	45¢	Aylmer	51¢	Snyder's	47¢
Cream Corn	24/14 oz	2/35¢	Aylmer	2/41¢	Green Giant	2/43¢
Cream Corn	24/19 oz	2/39¢	Aylmer	2/47¢	York	2/49¢
Kernel Corn	24/12 oz	2/41¢	Niblets	2/43¢	Aylmer	2/43¢
Cut Green Beans	24/14 oz	2/31¢	Green Giant	2/45¢	Aylmer	25¢
Cut Green Beans	24/19 oz	2/35¢	York	2/49¢		
Cut Wax Beans	24/14 oz	2/35¢	Aylmer	2/41¢	Snyder's	2/39¢
Cut Wax Beans	24/19 oz	2/37¢	Aylmer	23¢	York	2/49¢
Assorted Peas	24/10 oz	2/33¢	Del Monte	2/37¢	Stokely	2/39¢
Assorted Peas	24/14 oz	2/35¢	Aylmer	2/41¢	Stokely	2/47¢
Assorted Peas	24/19 oz	2/43¢	Aylmer	2/47¢	York	29¢
Tomatoes	24/19 oz	29¢	Aylmer	33¢	Kent	31¢
Tomatoes	24/28 oz	33¢	Aylmer	39¢	Kent	35¢
Potatoes	24/19 oz	2/39¢	Aylmer	2/47¢	Snyder's	2/39¢

2. Weekly beef prices during selected periods, 1965

M. LOEB LTD. (MEAT DIVISION) OTTAWA

WEEK ENDING JULY 31, 1965

Supplier	Beef													Veal			
	CSS	Front	Rack	Hind	Long Hip	Shrt. Hip	Chuck	Rib	Long Loin	Shrt. Loin	Sirl. Butt	Plate	Shank	Flank	CCS	Hind	Frt.	Grade
Swifts	45¾	35		60		52½	34¾	60	89			17	19					
Burns								58										
Ott. Beef	45¾	36		58		52½	34¾	58	83			22	20					
Can. Pack	45¾	34½	41½	59		52½	35½	61	89			21	19		45	56	30	
Capital	45¾	35½		58		53	34¾	62	83			22	20					
Streamline Fearman	54½																	
Laurier																		
Crabtree																		
H & P	45¾																	
Whytes																		
Puddy																		
Quality																		
Sterling																		
Essex																		
Buying at	45¾	34½	41½	58/59		52½	34¾	58	83			17	19		45	56	30	

Fronts

Chuck	50% at 34¾¢	= $ 17.37
Rib	20% at 58¢	= $ 11.60
Plate	14% at 17¢	= $ 2.38
Shank	8% at 19¢	= $ 1.52
Brisket	8% at 28¢	= $ 2.24
		$ 35.11

Hinds

Hips	50% at 52½¢	= $ 26.25
Loin	37% at 83¢	= $ 31.08
Flank	13% at 18¢	= $ 2.34
		$ 59.67

REMARKS:

M. LOEB LTD. (MEAT DIVISION) OTTAWA

WEEK ENDING JULY 24, 1965

Supplier	Beef													Veal			
	CSS	Front	Rack	Hind	Long Hip	Shrt. Hip	Chuck	Rib	Long Loin	Shrt. Loin	Sirl. Butt	Plate	Shank	Flank	CCS	Hind	Frt.	Grade
Swifts	46	35		59		52½	36	58½	86			17	19					
Burns																		
Ott. Beef	46	35½		58		52½	35	60	83			22	20					
Can. Pack	46	35		59		52½	35	60	89			22	19		45	56	30	
Capital	46	35		58		54	35	60	84			21	19					
Fearman																		
Laurier																		
Crabtree																		
H & P	46¼																	
Whytes																		
Puddy																		
Quality																		
Sterling																		
Essex																		
Buying at	46	35		58		52½	35	58½	84			17	19		45	56	30	

Fronts

Chuck	50% at 35¢	= $	17.50
Rib	20% at 58½¢	= $	11.70
Plate	14% at 17¢	= $	2.38
Shank	8% at 19¢	= $	1.52
Brisket	8% at 28¢	= $	2.24
		$	35.34

Hinds

Hips	50% at 52½¢	= $	26.25
Loin	37% at 84¢	= $	31.08
Flank	13% at 18¢	= $	2.34
		$	59.67

REMARKS:

M. LOEB LTD. (MEAT DIVISION) OTTAWA

WEEK ENDING JULY 17/65

Supplier	Beef													Veal				
	CSS	Front	Rack	Hind	Long Hip	Shrt. Hip	Chuck	Rib	Long Loin	Shrt. Loin	Sirl. Butt	Plate	Shank	Flank	CCS	Hind	Frt.	Grade
Swifts	46	35		58½		52	36	58	88			17	19					
Burns				57														
Ott. Beef	46	36		57		54	35	59	85			22	20					
Can. Pack	46½	35		57		52½	36	61	88			21	19		44½	56	30	
Capital	46	35		57		53	36	58	84			21	19					
Fearman																		
Laurier																		
Crabtree																		
H & P																		
Whytes																		
Puddy																		
Quality																		
Sterling																		
Essex																		
Buying at	46	35		57		52	36	58	84			17	19					

Fronts

Chuck	50% at 36¢	= $	18.00
Rib	20% at 58¢	= $	11.60
Plate	14% at 17¢	= $	2.38
Shank	8% at 19¢	= $	1.52
Brisket	8% at 29¢	= $	2.32
		$	35.82

Hinds

Hips	50% at 52¢	= $	26.00
Loin	37% at 84¢	= $	31.08
Flank	13% at 18¢	= $	2.34
		$	59.42

REMARKS:

M. LOEB LTD. (MEAT DIVISION) OTTAWA

WEEK ENDING JULY 10/65

Supplier	Beef														Veal			
	CSS	Front	Rack	Hind	Long Hip	Shrt. Hip	Chuck	Rib	Long Loin	Shrt. Loin	Sirl. Butt	Plate	Shank	Flank	CCS	Hind	Frt.	Grade
Swifts	46	34½		58½		52	35½	58	88			17	19					
Burns																		
Ott. Beef	46	36		57		53	35	58	82			22	22					
Can. Pack	46	35		59½		52½	36	61	88			21	19		44½	56	30	
Capital	46	35		57		52	36	58	82			20	19					
Fearman																		
Laurier																		
Crabtree																		
H & P																		
Whytes																		
Puddy																		
Quality																		
Sterling																		
Essex																		
Buying at	46	34½		57		52	35	58	82			17	19		44½	56	30	

Fronts

Chuck	50% at 35¢	= $ 17.50
Rib	20% at 58¢	= $ 11.60
Plate	14% at 17¢	= $ 2.38
Shank	8% at 19¢	= $ 1.52
Brisket	8% at 28¢	= $ 2.24
		$ 35.24

Hinds

Hips	50% at 52¢	= $ 26.00
Loin	37% at 82¢	= $ 30.34
Flank	13% at 17¢	= $ 2.21
		$ 58.55

REMARKS:

M. LOEB LTD. (MEAT DIVISION) OTTAWA

WEEK ENDING JULY 3/65

Supplier	Beef														Veal			
	CSS	Front	Rack	Hind	Long Hip	Shrt. Hip	Chuck	Rib	Long Loin	Shrt. Loin	Sirl. Butt	Plate	Shank	Flank	CCS	Hind	Frt.	Grade
Swifts	46	34		60½		53½	35	60	87			17	19					
Burns																		
Ott. Beef	46	35		58		53	35	58	85			22	20					
Can. Pack	46	35		60½		52	35	61	88			21	19		44½	56	30	
Capital	46	34		57		53	35	58	85			20	20					
Fearman																		
Laurier																		
Crabtree																		
H & P	46																	
Whytes				58														
Puddy																		
Quality				57														
Sterling																		
Essex																		
Buying at	46	34		—		53	35	58	85			17	19		44½	56	30	

Fronts

Chuck	50% at 35¢	= $ 17.50
Rib	20% at 58¢	= $ 11.60
Plate	14% at 17¢	= $ 2.38
Shank	8% at 19¢	= $ 1.52
Brisket	8% at 28¢	= $ 2.24
		$ 35.24

Hinds

Hips	50% at 53¢	= $ 26.50
Loin	37% at 85¢	= $ 31.45
Flank	13% at 16¢	= $ 2.08
		$ 60.03

REMARKS:

M. LOEB LTD. (MEAT DIVISION) OTTAWA

WEEK ENDING JUNE 26/65

Supplier	Beef														Veal			
	CSS	Front	Rack	Hind	Long Hip	Shrt. Hip	Chuck	Rib	Long Loin	Shrt. Loin	Sirl. Butt	Plate	Shank	Flank	CCS	Hind	Frt.	Grade
Swifts		35		60		54	35	62	87			17	20					
Burns							38											
Ott. Beef	46¼	35½		59½		54	34½	58	85			22	20					
Can. Pack		35		60½		53	36	62	87			21	19		45	58	30	
Capital	46¼	34½		59½		55	34½	60	85			21	19					
Fearman	54½						34½											
Laurier																		
Crabtree	46¼																	
H & P	46¼																	
Whytes	46¼						36											
Puddy							37½											
Quality							35											
Leaders							35											
Essex																		
Buying at	46¼	35		59½/60		53	35	58	85			17	19		45	58	30	

Fronts

Chuck	50% at 35¢	= $ 17.50
Rib	20% at 58¢	= $ 11.60
Plate	14% at 17¢	= $ 2.38
Shank	8% at 19¢	= $ 1 52
Brisket	8% at 28¢	= $ 2.24
		$ 35.24

Hinds

Hips	50% at 53¢	= $ 26.50
Loin	37% at 85¢	= $ 31.45
Flank	13% at 16¢	= $ 2.08
		$ 60.03

REMARKS:

M. LOEB LTD. (MEAT DIVISION) OTTAWA

WEEK ENDING JUNE 19/65

Supplier	Beef														Veal			
	CSS	Front	Rack	Hind	Long Hip	Shrt. Hip	Chuck	Rib	Long Loin	Shrt. Loin	Sirl. Butt	Plate	Shank	Flank	CCS	Hind	Frt.	Grade
Swifts	45¾	35		60		52½	35	62	84			17	17					
Burns							36											
Ott. Beef	45¾	34	41	59½		54	33	59	85			21	20					
Can. Pack		34		61		53	33	62	87			21	19		45	58	30	
Capital	45¾	34		59½		54	33	57	88			21	19					
Fearman							36											
Laurier																		
Crabtree	45¾																	
H & P	45¾																	
Whytes																		
Puddy																		
Quality																		
Sterling																		
Essex																		
Buying at	45¾	34		59½		53	33	59	84			17	17		45	58	30	

Fronts

Chuck	50% at 33¢	= $ 16.50
Rib	20% at 59¢	= $ 11.80
Plate	14% at 17¢	= $ 2.38
Shank	8% at 17¢	= $ 1.36
Brisket	8% at 26¢	= $ 2.08
		$ 34.12

Hinds

Hips	50% at 53¢	= $ 26.50
Loin	37% at 84¢	= $ 31.08
Flank	13% at 15¢	= $ 1.95
		$ 59.53

REMARKS:

M. LOEB LTD. (MEAT DIVISION) OTTAWA

WEEK ENDING JUNE 12/65

Supplier	Beef														Veal			
	CSS	Front	Rack	Hind	Long Hip	Shrt. Hip	Chuck	Rib	Long Loin	Shrt. Loin	Sirl. Butt	Plate	Shank	Flank	CCS	Hind	Frt.	Grade
Swifts	45½	35		60		52½	34	62	84			17	19					
Burns																		
Ott. Beef	45½	35		59		55	34	62	85			19	20					
Can. Pack		33½		60		52½	34	60	82			21	19		46	59	30	
Capital	45½	34½		59		55	34	61	85			21	20					
Streamline Fearman	53½					52½												
Laurier																		
Crabtree																		
H & P	45½																	
Whytes				58		52½												
Puddy						52½												
Quality																		
Legrade															43	54		
Essex																		
Buying at	45½	34½		59/60		52½	34	61	82			17	19		43	54	30	

Fronts

Chuck	50% at 34¢	= $ 17.00
Rib	20% at 61¢	= $ 12.20
Plate	14% at 17¢	= $ 2.38
Shank	8% at 19¢	= $ 1.52
Brisket	8% at 26¢	= $ 2.08
		$ 35.18

Hinds

Hips	50% at 52½¢	= $ 26.25
Loin	37% at 82¢	= $ 30.34
Flank	13% at 16¢	= $ 2.08
		$ 58.67

REMARKS:

M. LOEB LTD. (MEAT DIVISION) OTTAWA

WEEK ENDING JUNE 5/65

Supplier	Beef													Veal			
	CSS	Front	Rack	Hind	Long Hip	Shrt. Hip	Chuck	Rib	Long Loin	Shrt. Loin	Sirl Butt	Plate	Sahnk	Flank	CCS	Hind	Frt.	Grade
Swifts	44¾	34½		60		53	34½	61	82			15	17					
Burns								58	79									
Ott. Beef	44¾	35		58		55	33	62	82			19	20					
Can. Pack		33		58		51½	34	59	81			20	19		45	58	30	
Capital	44½	34		58		53	34	60	83			20	19					
Streamline Fearman	52½																	
Laurier																		
Crabtree																		
H & P																		
Whytes																		
Puddy																		
Quality																		
Sterling																		
Essex																		
Buying at	44¾	34		58		51½	33	59	81			15	17		45	58	30	

Fronts

Chuck	50% at 33¢	= $	16.50
Rib	20% at 59¢	= $	11.80
Plate	14% at 15¢	= $	2.10
Shank	8% at 17¢	= $	1.36
Brisket	8% at 26¢	= $	2.08
		$	33.84

Hinds

Hips	50% at 51½¢	= $	25.75
Loin	37% at 81¢	= $	29.97
Flank	13% at 14¢	= $	1.82
		$	57.54

REMARKS:

M. LOEB LTD. (MEAT DIVISION) OTTAWA

WEEK COMMENCING AUGUST 2, 1966

Supplier	Beef														Veal			
	CSS	Front	Rack	Hind	Long Hip	Shrt. Hip	Chuck	Rib	Long Loin	Shrt. Loin	Sirl Butt	Plate	Shank	Flank	CCS	Hind	Frt.	Grade
(H & D) Swifts	46½	36	42½	62½	57½	55	38	55	90	1.02	79	23	25	23	55	66	38	Select
Burns	46½	37		59			37	51										
Ott. Beef	46½	35½	40½	59	57	52	36	52	85	98	69	24	24	24				
Can. Pack																		
Capital	46½	36	40½	59	59	54	36	52	85	1.03	77	24	26	24				
Fearman																		
Laurier																		
Crabtree	46½														55	66	38	Good
H & P																		
Whytes																		
Puddy																		
Quality																		
Sterling																		
Essex																		
Buying at	46½	35½	40½	59	57	52	36/37	52	85	98	69	24	24	24	55	66	38	

Fronts

Chuck	50% at 36¢	= $ 18.00
Rib	20% at 52¢	= $ 10.40
Plate	14% at 24¢	= $ 3.36
Shank	8% at 24¢	= $ 1.96
Brisket	8% at 29¢	= $ 2.32
		$ 36.04

Hinds

Hips	50% at 52¢	= $ 26.00
Loin	37% at 85¢	= $ 31.45
Flank	13% at 24¢	= $ 3.12
		$ 60.57

REMARKS:

M. LOEB LTD. (MEAT DIVISION) OTTAWA

WEEK COMMENCING JULY 25, 1966

Supplier	Beef															Veal		
	CSS	Front	Rack	Hind	Long Hip	Shrt. Hip	Chuck	Rib	Long Loin	Shrt. Loin	Sirl Butt	Plate	Shank	Flank	CCS	Hind	Frt.	Grade
Swifts	45½	35	42	59½	57	54	35	56	82	94	73	23	25	23	54	64	38	
Burns																		
Ott. Beef	45½	34½	41	58	57	52	35	52	82	98	72	25	25	25				
Can. Pack																		
Capital	45½	36	40	58	58	53	35	50	82	97	72	23	25	23				
Fearman	45½																	
Laurier																		
Crabtree	45½																	
H & P																		
Whytes																		
Puddy																		
Quality																		
Sterling																		
Essex	45½	45																
Buying at	45½	34½	40	58	57	52	35	50	82	97	72	23	25	23	54	64	38	

Fronts

Chuck	50% at 35¢	= $ 17.50
Rib	20% at 50¢	= $ 10.00
Plate	14% at 23¢	= $ 3.22
Shank	8% at 25¢	= $ 2.00
Brisket	8% at 30¢	= $ 2.40
		$ 35.12

Hinds

Hips	50% at 52¢	= $ 26.00
Loin	37% at 82¢	= $ 30.34
Flank	13% at 23¢	= $ 2.99
		$ 59.33

REMARKS:

M. LOEB LTD. (MEAT DIVISION) OTTAWA

WEEK COMMENCING JULY 18/66

Supplier	Beef														Veal			
	CSS	Front	Rack	Hind	Long Hip	Shrt. Hip	Chuck	Rib	Long Loin	Shrt. Loin	Sirl Butt	Plate	Shank	Flank	CCS	Hind	Frt.	Grade
Swifts	43¾	35½	43½	58	55½	50½	34½	54	82	92	71	22	22	22	54	64	—	Select
Burns	43¾																	
Ott. Beef	43¾	33	39	56½	55	50	33½/34	49	81	95	69	22	23	22				
Can. Pack																		
Capital	43¾	34	39	56½	55	50	33½/34	49	82	95	71	23	25	23				
Fearman																		
Laurier																		
Crabtree	43¾																	
H & P																		
Whytes																		
Puddy																		
Quality																		
Sterling																		
Essex																		
Buying at	43¾	33	39	56½	55	50	33½/34	49	81	95	69	22	23	22	54	64		Select

Fronts

Chuck	50% at 33½¢	$ 16.75
Rib	20% at 49¢	$ 9.80
Plate	14% at 22¢	$ 3.08
Shank	8% at 23¢	$ 1.84
Brisket	8% at 29¢	$ 2.32
		$ 33.79

Hinds

Hips	50% at 50¢	$ 25.00
Loin	37% at 81¢	$ 29.97
Flank	13% at 22¢	$ 2.86
		$ 57.83

REMARKS:

M. LOEB LTD. (MEAT DIVISION) OTTAWA

WEEK COMMENCING JULY 11-16, 1966

Supplier	Beef															Veal		
	CSS	Front	Rack	Hind	Long Hip	Shrt. Hip	Chuck	Rib	Long Loin	Shrt. Loin	Sirl Butt	Plate	Shank	Flank	CCS	Hind	Frt.	Grade
Swifts	43¾	33		57½	55½	51½	37	54	79	90	71	22	24	24	52	64		
Burns	43¾																	
Ott. Beef	43¾	34		55½	57	51	34½	49	77	97	71	24	24	24				
Can. Pack	43¾	33		55½	55	53	34½	49	85	95	72	24	24	24	53	64	36	
Capital	43¾	33		55½	55	50	34	49	77	88	69	23	25	24				
Fearman	44			56		50	33	50	77	97		23						
Laurier																		
Crabtree																		
H & P					54½	51	33											
Whytes				57		49	32½											
Puddy																		
Quality																		
Sterling	43¾			55½														
Essex																		
Buying at	43¾	33	39	55½	55	50	34	49	77	88	69	22	24	24	53	64	36	

Fronts

Chuck	50% at 34¢	= $ 17.00
Rib	20% at 49¢	= $ 9.80
Plate	14% at 22¢	= $ 3.08
Shank	8% at 24¢	= $ 1.42
Brisket	8% at 30¢	= $ 2.40
		$ 34.20

Hinds

Hips	50% at 50¢	= $ 25.00
Loin	37% at 77¢	= $ 28.49
Flank	13% at 24¢	= $ 3.12
		$ 56.61

REMARKS:

M. LOEB LTD. (MEAT DIVISION) OTTAWA

WEEK COMMENCING JULY 4, 1966

Supplier	Beef														Veal			
	CSS	Front	Rack	Hind	Long Hip	Shrt. Hip	Chuck	Rib	Long Loin	Shrt. Loin	Sirl Butt	Plate	Shank	Flank	CCS	Hind	Frt.	Grade
Swifts	44	35	41	57	55½	51½	37	54	78	89	71	22	24	22	54			
Burns	44																	
Ott. Beef	44	34	38¼	56	57	52	34½	49	77	89	69	22	23	23				
Can. Pack	44	34	38¾	56	55	53	34½	49	79	93	67	25	25	25	55	66	36	
Capital	44	34	38¾	56	55	51	34½	49	77	89	67	24	25	24				
Fearman																		
Laurier																		
Crabtree																		
Morantz							34											
Whytes																		
Puddy																		
Quality																		
Sterling																		
Essex																		
Buying at	44	34	38¾	56	55	51	34½	49	77	89	67	22	23	23	54/55	66	36	Select No. 1-2

Fronts

Chuck	50% at 34½¢	= $ 17.50
Rib	20% at 49¢	= $ 9.80
Plate	14% at 22¢	= $ 3.08
Shank	8% at 23¢	= $ 1.84
Brisket	8% at 30¢	= $ 2.40
		$ 35.20

Hinds

Hips	50% at 51¢	= $ 25.50
Loin	37% at 77¢	= $ 28.49
Flank	13% at 23¢	= $ 3.25
		$ 57.24

REMARKS:

M. LOEB LTD. (MEAT DIVISION) OTTAWA

WEEK COMMENCING JUNE 27-JULY 2, 1966

Supplier	Beef														Veal			
	CSS	Front	Rack	Hind	Long Hip	Shrt. Hip	Chuck	Rib	Long Loin	Shrt. Loin	Sirl Butt	Plate	Shank	Flank	CCS	Hind	Frt.	Grade
Swifts	44½	36½	42	56½	54	51	38	58	78	90	67	22	25	22	54	67		Select
Burns							36											
Ott. Beef	44½	35	41	56	57	53	36	50	77	89	69	23	25	23				
Can. Pack	44½	34	40½	56	55	53	36	49	79	93	67	25	25	25	57	68	36	
Capital	44¼	36	41	56	55	52	36	47	77	89	67	23	25	23				
Fearman																		
Laurier																		
Crabtree	44¼																	
H & P (Swift)	44¼																	
Whytes																		
Puddy																		
Quality																		
Sterling																		
Essex																		
Buying at	44¼	34	40½	56	54	51	36	49	77	89	67	23	25	23	54	67	36	Select

Fronts

Chuck	50% at 36¢	= $ 18.00
Rib	20% at 49¢	= $ 9.80
Plate	14% at 23¢	= $ 3.22
Shank	8% at 25¢	= $ 2.00
Brisket	8% at 30¢	= $ 2.40
		$ 35.42

Hinds

Hips	50% at 51¢	= $ 25.50
Loin	37% at 77¢	= $ 28.49
Flank	13% at 23¢	= $ 2.99
		$ 56.98

REMARKS:

M. LOEB LTD. (MEAT DIVISION) OTTAWA

WEEK COMMENCING JUNE 20, 1966

Supplier	Beef														Veal			
	CSS	Front	Rack	Hind	Long Hip	Shrt. Hip	Chuck	Rib	Long Loin	Shrt. Loin	Sirl Butt	Plate	Shank	Flank	CCS	Hind	Frt.	Grade
Swifts	44½	37	43	56	54½	51	38	58	80	93	67	23	25	23				
Burns				55														
Ott. Beef	44½	36	42	55	58	53	37	52	77	89	72	26	25	25				
Can. Pack	44½	35	41	57½	55	53	37	51	78	92	66	25	25	25	56	67	36	Choice & Good
Capital	44½	38	42	55	56	52	37	52	75	87	67	25	26	25				
Fearman																		
Laurier																		
Crabtree	44½																	
H & P																		
Whytes																		
Morantz							37											
Quality																		
Sterling																		
Essex																		
Buying at	44½	35	41	55	54½	51	37	51	75	87	66	25	25	25	56	67	26	

Fronts

Chuck	50% at 37¢	= $	18.50
Rib	20% at 51¢	= $	10.20
Plate	14% at 25¢	= $	3.50
Shank	8% at 25¢	= $	2.00
Brisket	8% at 30¢	= $	2.40
		$	36.60

Hinds

Hips	50% at 51¢	= $	25.50
Loin	37% at 75¢	= $	27.75
Flank	13% at 25¢	= $	3.25
		$	56.50

REMARKS:

M. LOEB LTD. (MEAT DIVISION) OTTAWA

WEEK COMMENCING JUNE 13, 1966

Supplier	Beef														Veal			
	CSS	Front	Rack	Hind	Long Hip	Shrt. Hip	Chuck	Rib	Long Loin	Shrt. Loin	Sirl Butt	Plate	Shank	Flank	CCS	Hind	Frt.	Grade
Swifts	44¾	37½	43	54½	53½	51	38	60	78	90	66	23	25	23				
Burns																		
Ott. Beef	44¾	38	42	54½	55	52	37	52	75	89	69	26	25	26				
Can. Pack	44¾	37	43	54½	55	53	38	52	78	92	66	25	25	25	55	66	36	Choice & Good
Capital	44¾	38	43	54½	55	52	37	52	75	87	67	25	26	25				
Fearman																		
Laurier																		
Crabtree	44¾																	
H & P (Swift)	44¾																	
Whytes																		
Puddy																		
Quality																		
Sterling																		
Essex																		
Buying at	44¾	37	42	54½	53½	51	37–38	52	75	87	66	25	25	25	55	66	36	Choice & Good

Fronts

Chuck	50% at 37¢	= $	18.50
Rib	20% at 52¢	= $	10.40
Plate	14% at 25¢	= $	3.50
Shank	8% at 25¢	= $	2.00
Brisket	8% at 35¢	= $	2.80
		$	37.20

Hinds

Hips	50% at 52¢	= $	26.00
Loin	37% at 75¢	= $	27.75
Flank	13% at 25¢	= $	3.25
		$	57.00

REMARKS:

M. LOEB LTD. (MEAT DIVISION) OTTAWA

WEEK COMMENCING JUNE 6, 1966

Supplier	Beef														Veal			
	CSS	Front	Rack	Hind	Long Hip	Shrt. Hip	Chuck	Rib	Long Loin	Shrt. Loin	Sirl Butt	Plate	Shank	Flank	CCS	Hind	Frt.	Grade
Swifts	45	38	44	56	54½	52	38	60	79	90	66	23	25	23				
Burns																		
Ott. Beef	45	38	45	54½	55	52	37	53	75	85	65	26	25	26				
Can. Pack		38	43½	55	55	52	38	54	77	92	66	24	25	25	55	66	36	Choice and Good
Capital	45	39	43	54½	55	52	37	54	75	85	67	27	26	27				
Fearman	45																	
Laurier																		
Crabtree																		
H & P (C.P.C.)	45																	
Whytes																		
Puddy																		
Quality																		
Sterling																		
Essex																		
Buying at	45	38	43	54½	55	52	37/38	53	75	85	65	24	25	25	55	66	36	Choice and Good

Fronts

Chuck	50% at 37¢	= $ 18.50
Rib	20% at 53¢	= $ 10.60
Plate	14% at 24¢	= $ 3.36
Shank	8% at 25¢	= $ 2.00
Brisket	8% at 35¢	= $ 2.80
		$ 37.26

Hinds

Hips	50% at 52¢	= $ 26.00
Loin	37% at 75¢	= $ 27.75
Flank	13% at 25¢	= $ 3.25
		$ 57.00

REMARKS:

Selected *Lean* Cow Plates for Hamburg.

M. LOEB LTD. (MEAT DIVISION) OTTAWA

WEEK COMMENCING MAY 30, 1966

Supplier	Beef														Veal			
	CSS	Front	Rack	Hind	Long Hip	Shrt. Hip	Chuck	Rib	Long Loin	Shrt. Loin	Sirl Butt	Plate	Shank	Flank	CCS	Hind	Frt.	Grade
Swifts	45¼	39½	47	56½	56½	52½	39½	61	78	92	65	25	25	25				
Burns	45¼																	
Ott. Beef	45¼	38	45	54½	53	50	38	55	75	89	63	26	25	26				
Can. Pack	45¼	39	44½	54½	54	50	38½	56	78	92	66	25	25	25	55	66	36	Choice and Good
Capital	45¼	39	44	54½	55	50	38	54	75	87	67	27	26	27				
Fearman (Streamlined)	54					50												
Laurier																		
Crabtree																		
H & P																		
Whytes																		
Morantz						50												
Quality																		
Sterling																		
Essex																		
Buying at	45¼	38	44	54½	53	50	38/38½	54	75	87	63	25	25	25	55	66	36	Choice and Good

Fronts

Chuck	50% at 38¢	= $ 19.00
Rib	20% at 54¢	= $ 10.80
Plate	14% at 25¢	= $ 3.50
Shank	8% at 25¢	= $ 2.00
Brisket	8% at 35¢	= $ 2.80
		$ 38.10

Hinds

Hips	50% at 50¢	= $ 25.00
Loin	37% at 75¢	= $ 27.75
Flank	13% at 25¢	= $ 3.25
		$ 56.00

REMARKS:

4. Cost price from Packers of pork cuts and processed products, June, July 1965 vs 1966.

COST PRICES FROM PACKERS

	June, July, 1965	June, July, 1966
Side Ribs	53 Average	62 Average
Pork Liver	20	36
Pork Loins	59½	63
R.T.S. Boneless Smoked Picnics	61	..
R.T.S. Smoked Cottage Roll ½	63	67
Reg. Smoked Picnics	42	52
New York Shoulders	40½	46
Fresh Picnics	34½	39
R.T.S. Skinless Shankless Hams	62½	63
Wieners 1# C.O.V.	40	45
Bacon 1# C.O.V.	72	88
Pork Hocks	14½	21
S.P. Cottage Rolls	51	58
Boneless Backs (Frozen Tied)	70	75

5. Operating Budget for an I.G.A. store

M. LOEB LIMITED — I.G.A. STORE

OPERATING BUDGET

Based on Sales of $1,000

	BUDGET	
SALES	Dollars	Percentage
Grocery	$ 700	70.00%
Meat	200	20.00
Produce	100	10.00
TOTAL SALES	1,000	100.00
GROSS PROFIT		
Grocery	128	18.25
Meat	42	21.00
Produce	25	25.00
TOTAL GROSS PROFIT	195	19.50
EXPENSES		
Controllable Expenses		
Wages	60	6.00
Employees' Benefits	5	.50
Supplies	11	1.10
Laundry	1	.10
Advertising	10	1.00
Sales Incentive	20	2.00
Service Fee	15	1.45
Miscellaneous	1	.10
Repairs	4	.40
Total Controllable Expenses	127	12.75

OPERATING BUDGET (*Cont.*)

SALES	Dollars	Percentage
Fixed Expenses		
Depreciation	9	.85
Garbage	1	.07
Insurance	1	.10
Taxes	2	.24
Protection Services	—	.02
Rent	15	1.50
Utilities	5	.50
Total Fixed Expenses	33	3.30
Administrative Expense		
Legal and Accounting	2	.20
Salaries	—	—
Supplies	1	.05
Telephone	—	.04
Interest and Bank Charges	5	.50
Total Administrative Expense	8	.80
TOTAL EXPENSES	168	16.85
NET PROFIT BEFORE TAXES	$ 27	2.65%

6. I.G.A. Retailer-Wholesaler Franchise Agreement.

In consideration of membership in the Independent Grocers' Alliance and in consideration of the covenants mutually agreed upon and herein set forth, M. Loeb Limited and the Retailer hereto agree as follows:

M. LOEB LIMITED (hereinafter referred to as the "Supply Depot") agrees with the Retailer as follows:

1. To provide the Retailer with preliminary store engineering service and aid in procurement of store equipment, fixtures and supplies at the lowest current prices.

2. To provide Retailer with a planned merchandising program on meats, produce and groceries, to assure volume and profits.

3. Forward weekly "Merchandiser and Profit Builder" which provides editorial policy, market information, meat cutting tests, suggested selling prices, and other pertinent information.

4. To invoice all grocery merchandise to Retailer at the cost to the Supply Depot f.o.b. its warehouse, plus service fee on graduated basis.

5. To supply all fresh, frozen and prepared meats through the TableRite (or other) Meat Program and provide adequate assistance in quality control, cutting tests, procurement, supervision, etc.

6. To supply all fresh fruits and vegetables at lowest possible prices with emphasis on quality control, inventory control and merchandising through supervision.

7. To provide Retailer with a complete advertising and merchandising program designed to increase volume and profits.

8. To forward window posters weekly and other point-of-sale and seasonal in-the-store advertising (at the Supply Depot cost), in order to provide attractive store atmosphere.

9. To provide complete supervision by specialists in all departments of store to improve store operations and maintain proper gross and net profit percentages.

10. To provide at Supply Depot cost whenever and wherever possible training programs for store personnel in all departments in order to improve store operations.

11. To grant Retailer reasonable trading area and to consult with him, offering him first refusal on new stores, before granting franchise in or near present location.

12. To encourage and assist Retailer in expanding stores and provide such financial assistance or guarantees in store development as the Supply Depot, in its sole discretion, considers warranted.

13. To provide the Retailer with management counsel, with particular emphasis on legal, taxation, banking and finance, at the Supply Depot's cost, where applicable.

14. To provide Retailer with direct access to complete group insurance programs for widest possible coverage of all types, efficient settlement of claims at lowest possible rates.

15. To provide Retailer with proper bookkeeping and auditing procedure through its own facilities or by authorized representatives, at the Supply Depot's cost, where applicable.

16. To assist Retailer in securing adequate and proper personnel whenever possible. This includes negotiations between employer and employee on labour relations and encouragement of harmonious relations within the store.

17. To initiate and incorporate every conceivable labour saving device in order to increase efficiency and reduce costs at warehouse level with savings to be passed on to Retailer at every opportunity.

18. To dedicate its purpose and devote every effort through travel, reading, discussions and other means to develop the sales, earnings and expansion of its affiliated retailers to the exclusion of any other phase of its activity.

The foregoing arrangement is proposed on the understanding that both the Supply Depot and the Retailer will derive benefit therefrom to the extent that good faith and co-operation will continue to exist between them.

Nothing herein contained shall be deemed to entitle the Retailer to greater services, counsel or assistance than that normally rendered by the Supply Depot to all other similar Retailers.

This agreement may be terminated by either party upon written notice by registered letter thirty days in advance of such date of termination.

The Retailer agrees with M. Loeb Limited (hereinafter referred to as the "Supply Depot") as follows:

1. To identify his store as an IGA Foodliner or as an IGA Foodmarket in accordance with Supply Depot recommendations, and not permit any foreign signs on the property or premises, except with specific authority from the Supply Depot.

2. To arrange the interior of store and otherwise make reasonable changes from time to time in accordance with the Supply Depot recommendations for increased sales and profits.

3. To participate in all general advertising and merchandising programs as arranged by the Supply Depot and pay proportionate share, based on retail sales volume.

4. To purchase all requirements either by warehouse shipment or on a billing arrangement of dry groceries, frozen foods, dairy products, health and beauty aids, tobacco and confectionery products, packaging supplies, store equipment and all other items sold or used in a modern Foodmarket, from the Supply Depot.

5. To purchase all requirements of fresh and frozen meat through the Supply Depot Meat Department and otherwise co-operate in every respect with program of TableRite (or other) Meats.

6. Purchase all requirements of fresh fruits and vegetables from Produce Division of the Supply Depot and otherwise follow advertising and merchandising program as presented.

7. To provide Supply Depot with one order per week or as otherwise arranged and pay for all merchandise on a signed blank-cheque-in-advance basis.

8. To purchase only those items and only from those companies, on a direct basis and/or drop shipment as authorized by the Supply Depot, from time to time.

9. To purchase and promote private label merchandise as developed by the Supply Depot for greater volume and profits.

To co-operate fully with Supply Depot in ordering procedures and receiving of merchandise in effort to increase efficiency and reduce costs.

11. To adhere strictly to Supply Depot pricing policy on regular items, features, special promotions and maintain sufficient stocks at advertised prices to meet consumer demands.

12. To permit Supply Depot supervisory personnel to arrange special promotions and planned merchandising for the purpose of attaining a balanced operation for greater sales and earnings.

13. To grant Supply Depot supervisory personnel authority over store personnel in order to maintain required standards of cleanliness and performance.

14. To encourage and support all personnel and other training programs arranged by Supply Depot and contribute proportionate share of cost.

15. To provide Supply Depot with interim and annual financial statements for purpose of reviewing progress and profits, and as well with weekly departmental and total sales.

16. To arrange an adequate comprehensive insurance program on property, equipment, inventory, business interruption, etc., to assure proper protection in event of emergency.

17. To engage in private promotions, except in store, only with the prior consent of the Supply Depot.

18. To execute and deliver to the Supply Depot at Supply Depot's request, a chattel mortgage or bond on all furnishings and fixtures owned by the Retailer to secure any indebtedness to the Supply Depot from time to time.

19. To execute a cross lease between himself and the Supply Depot, where applicable.

20. To co-operate with all other retailers in matters of special promotions, public relations, hiring of personnel and in every way possible to maintain harmonious relationship within the group.

21. To join the Retail Accounting Services when and if available and when deemed essential by the Supply Depot.

22. During the currency of the within agreement or at any time within twelve months of the termination thereof, the Retailer will not sell the business and/or property without first submitting to the Supply Depot for its inspection a bona fide offer in writing to purchase the said property and/or business made by a prospective purchaser to the Retailer, and such offer to purchase shall be verified to the satisfaction of the Supply Depot to be a bona fide and legitimate offer to purchase. In the event of such offer to purchase being submitted to the Supply Depot as aforesaid, the Supply Depot shall have the irrevocable right at any time within fifteen (15) days from the time such offer to purchase is submitted to the Supply Depot to purchase the said business and/or property at the same price and subject to the same terms and conditions as set out in the said offer to purchase. If the Supply Depot refuses to purchase the said business and/or property, or does not exercise its right to purchase the said business and/or property within fifteen (15) days as above set forth, then the Retailer shall be at liberty to sell the said business and/or property at the same price and subject to the same terms and conditions as set out in the said offer to purchase submitted by the Retailer to the Supply Depot. The Retailer shall not, however, sell the said business and/or property at a lower price than the price so submitted to the Supply Depot without first giving he Supply Depot an opportunity to meet the said lower price in the same manner as provided for above. In event of purchase by Supply Depot of Retailer's business, Retailer agrees for a period of five years thereafter not to carry on a similar business within a radius of one mile in urban areas and ten miles in rural areas as the case may be.

Should the Supply Depot purchase the business from the Retailer, the Retailer shall assign to the Supply Depot the lease for the premises, and should the retailer be the owner of the premises he will, upon the Supply Depot exercising the right to purchase the business as above provided, grant unto the Supply Depot a lease for the premises for a period of fifteen (15) years at a rental mutually agreed upon, or, failing that, by arbitration.

In the event the Retailer should desire to surrender any lease for the premises which he may be holding and in which the business of the Retailer is being carried on, he shall, before surrendering same or before failing to exercise any right to renewal, notify the Supply Depot of his intention to surrender the said lease, and at the request of the Supply Depot he shall then assign unto the Supply Depot the unexpired term or portion of the said lease and any renewals therein.

This agreement may be terminated by either party upon written notice delivered thirty (30) days in advance of such termination.

WITNESS the signature of the Supply Depot, M. LOEB LIMITED, and the Retailer this ..... day of ....., 196..

.....	.....
RETAILER (Seal)	M. LOEB LIMITED (Seal)
.....	
RETAILER (Seal)	
	BY:
.....	.....
.....	.....
TOWN, PROVINCE	TITLE

STEINBERG LIMITED

Proceedings No. 9, Pages 510-558

Supplementary information supplied by the Company arising out of their hearing before the Committee on October 18, 1966:

1. Price of Dressed Cattle—Montreal

MONTREAL

PRICE OF DRESSED CATTLE

Cents per lb.

Week Ending		Cents per lb. 1965	1966
July	10th	45½¢	43½¢
"	17th	45½	44½
"	24th	45½	45½
"	31st	44¾	46½
August	7th	45½	45½
"	14th	44½	44½
"	21st	43½	44
"	28th	43	45
September	6th	43½	48½
"	11th	43	46½
"	18th	43	47
"	27th	43	48
October	2nd	43	48

Warehouse price—Carload lots
No hinds bought during this period

2. Price of Loins of Pork—Montreal

MONTREAL

PRICE OF LOINS OF PORK

Cents per lb.

Week Ending		1965	1966
July	9th	63 ¢	61 ¢
"	16th	62	58
"	23rd	61	58
"	30th	61	62
August	6th	62	63
"	13th	61	60
"	20th	62	60
"	27th	62	60
September	4th	61	60
"	11th	61	62
"	18th	61	67
"	25th	62	66
October	2nd	61	69

3. Retail Prices, Montreal Stores, October, 1966.

RETAIL PRICES, MONTREAL STORES

STEINBERG'S LTD.

Retail Prices Oct. 1966

COMMODITY			
Milk, Qt.	.26¢		
Silverbrook Butter 1 lb.	[1].68	Steinberg	Brand
Sunnyfield Butter 1 lb.	.67	"	"
Sunnyfield Butter 1 lb.	.63	"	"
Bread, Wh. Sl.	2/.39	"	"
Eggs, 1 doz. lg.	.75	"	"
Sugar 5 lbs.	.41	"	"
Instant Coffe 10 oz.	1.29	"	"
Kellogg's Corn Flakes 12 oz.	.35	"	"
Frozen Orange Juice 6 oz.	[2]4/.95	"	"
Cigarettes, carton	3.99		
Heinz Baby Food, str. 4¾ oz.	3/.43		
Javex Bleach 32 oz.	.27		
Robin Hood Flour 10 lbs.	1.15		
Tide Detergent, Gt.	1.04		
Betty Crocker Wh. Cake Mix	.49		
Kleenex Facial Tissue, 400's	2/.71		
Crest Tooth Paste, Gt.	.69		
Christie's Sodas, lb.	2/.77		
Special Blend Tea Bags 60's	[3] —		
A & P Instant Milk 3 lbs.	.99	Steinberg	Brand
Allgood Bacon, 1 lb.	.89	"	"
Sausage, 1 lb.	.79	"	"
Chicken, lb.	[4] —		
Weiners, lb.	.69	"	"
Bologna, 1 lb. cello	.65		
Pork Side Spare Ribs	.85		
Potatoes, 10 lbs. N.B.	.45		
Potatoes, 10 lbs. Que.	.39		

Footnotes

1. There are different grades in butter. We do not carry either Silverbrook or Sunnyfield brand and do not know their quality or grade. Prices quoted for Steinberg butter may not be comparable.

2. This price was an A & P weekly feature; regular price is 4/95¢. Here again, frozen Orange Juice concentrate comes in different qualities which may not be comparable between chains.

3. Steinberg's does not carry a private label on the smaller 60 tea bag package. However, our Steinberg brand in the 100 tea bag package sells for .79c.

4. There are various types and grades of chicken; fresh frozen, cut-up, small, large, etc., each selling at a different price per pound. Therefore, it is difficult to give comparable retail prices.

4. Steinberg Private Label Suppliers

ITEM	SUPPLIER
COFFEE:	
Ground	Steinbergs Limited
Instant	General Foods
DETERGENTS:	Witco Chemical Company
SOAP:	J. B. Williams & Co.
BACON:	Legrade Inc.
PREPARED MEATS:	Steinbergs Limited

No private label on Cigarettes, Cereals or Baby foods.

WESTERN GROCERS LTD.

Proceedings No. 11, Pages 716-739

Supplementary information supplied by the Company arising out of their hearing before the Committee on October 25, 1966:

Q. Senator Carter, page 716: Can you supply the Committee with gross advertising costs comparable to the net figures shown in Exhibit 'A' (page 740).

A. The gross advertising costs in relation to sales are shown below:

	Sales	Gross Advertising Costs	Percentage of Sales
1965	80,035,536	586,327	.73
1964	80,502,624	492,602	.61
1963	77,091,136	369,268	.48
1962	74,044,521	336,761	.45
1961	69,031,930	294,284	.43
1960	69,565,885	284,049	.41

Q. Mr. Joyal, page 718: Could you give us the sales of the subsidiaries of Westfair Foods Ltd?

A. The following table has been provided in reply to this question:

WESTFAIR FOODS LTD. AND SUBSIDIARIES
CONSOLIDATED SALES

	1965	1964
Western Grocers Ltd.	$ 80,035,536	$ 80,502,624
Dominion Fruit Ltd.	27,504,238	28,153,744
G. McLean Co. Ltd.	8,780,400	9,110,268
Northern Potato Ltd.	752,404	840,155
W. H. Malkin Ltd.	51,014,469	49,118,574
Shop-Easy Division	17,633,179	17,511,053
Mini Mart Division	477,429	
Chess Bros. Limited	2,307,325	2,125,844
Shop-Easy Stores Ltd.	16,175,301	16,177,446
Mini Marts Ltd.	1,379,568	39,843
Display Fixtures (Man.) Ltd.	1,269,986	805,930
Pacific Coast Packers Ltd.	1,874,057	—
Tom-Boy Division	1,881,797	2,125,844
	211,085,689	206,511,325
Less Inter-Co. Sales	20,053,858	18,695,564
Total Consolidated Sales	$ 191,031,831	$ 187,815,761

Q. Mr. Urie, page 738: Provide a copy of your contract with your franchise stores.

A. The Company has supplied a copy of their franchise agreement as shown below:

THIS AGREEMENT MADE THIS day of 19

Between WESTERN GROCERS LTD., of

hereinafter called the "Wholesaler",

and of

hereinafter called the "Retailer".

WHEREAS the Wholesaler has been engaged long and successfully in Western Canada in the wholesale food business, and the Retailer is the owner of a retail food business.

AND WHEREAS the Wholesaler is affiliated with several wholesale supply houses and hundreds of retail stores throughout Canada; and it is recognized generally that the merchandising power of a large group of retail merchants, wholesale supply houses and manufacturers dealing with each other on a basis of mutual co-operation will produce results of material benefit to all concerned.

AND WHEREAS the Wholesaler proposes to offer to a selected list of retailers, who own and operate their own stores, the advantages of operating under the name
(hereinafter known as "the Retail Group"), and the advantages of co-operative store purchasing privileges, and the advantage of advice and instruction in retail store business methods, without membership fees or capital stock purchases.

NOW, THEREFORE, in consideration of the mutual premises hereinafter contained, the parties do covenant and agree with each other as follows:

1. The Wholesaler hereby grants unto the Retailer for the term of this Agreement the right to use the name

2. The Wholesaler agrees to carry a representative stock of dry groceries, also fruits and vegetables, and to give the retailer, from time to time, information as to market conditions and such other device and information as may be of assistance in the Retailer's business.

3. The Wholesaler agrees to sell to the Retailer its controlled brands and such other brands as may be arranged for from time to time, for the use and benefit of "the Retail Group", and the Retailer agrees to stock and promote the sale of same.

4. The Retailer agrees to co-operate fully with any advertising program or programs instituted on his behalf by the Wholesaler for promotion of sales of "the Retail Group", and to pay his due proportion of the costs of such advertising or promotions.

5. The Wholesaler agrees to suggest plans and layout of shelving and fixtures according to "the Retail Group" store standards, and to assist the Retailer with suggestions as to the display of goods, the marking of same for sale, and furnish other merchandising ideas to enable the Retailer to operate in conformity with other stores in the group. The Retailer agrees to keep his store in a condition satisfactory to the Wholesaler at all times in order to maintain the prestige of "the Retail Group".

6. The Wholesaler agrees, at its own expense, to furnish a representative to call upon the Retailer from time to time, and advise him regarding merchandis-

ing methods, and to act in the capacity of Supervisor. The Retailer agrees that his books and records shall at all times be available for examination by the Supervisor, or other authorized representative of the Wholesaler.

7. The Retailer agrees to maintain his store according to the list of specifications and standards of "the Retail Group" attached to this Agreement, if applicable.

8. The Wholesaler agrees to furnish a suitable sign to be installed on the outside of the store and to rent same to the Retailer. The Retailer agrees to the installation of the sign on his store and to pay rent therefore, according to the terms of a supplementary sign rental Agreement.

9. The Retailer agrees to and does hereby appoint the Wholesaler as his exclusive purchasing agent during the term of this Agreement. The Retailer agrees to buy from the Wholesaler his requirements of fruits and vegetables and his requirements of all merchandise known as dry groceries, and all other merchandise handled by the Wholesaler. The Retailer further agrees to instruct all specialty men to place orders with and/or ship through the Wholesaler all such merchandise customarily distributed in that manner.

10. All goods sold by the Wholesaler to the Retailer shall be F.O.B. the Wholesaler's warehouse and the Retailer agrees to pay for same in accordance with the terms of a separate Buying Agreement known as the "Retail Service Plan".

11. This Agreement shall be effective until cancellation. The Retailer agrees that this Agreement may be cancelled at any time by the Wholesaler upon a breach of any of its provisions by the Retailer. Notwithstanding the provisions of the foregoing this Agreement is subject to cancellation by either party on 30 days written notice and in such event, the Retailer agrees to discontinue the use of all signs, designations and publicity connecting the Retailer with "the Retail Group", and to return all signs to the Wholesaler forthwith at the Retailer's expense.

12. If, at any time, during the term of this Agreement the Retailer receives a bona fide offer or offers to purchase or otherwise acquire the said business which the Retailer decides to accept, the Retailer agrees to communicate in writing every such offer and the terms thereof to the Wholesaler which shall have the right, for a period of fifteen (15) days from the date of receipt of such offer or offers to purchase the business at the price and on the terms contained in such offer.

13. In the event that the Wholesaler shall fail to accept the said offer within the said period of fifteen (15) days or in the event that the Wholesaler shall notify the Retailer that it does not intend to accept such offer the Retailer may sell the business to the person, firm or corporation named in the offer communicated under section twelve (12) herein but not on terms more favorable or at a lower price than those set out in the said offer.

IN WITNESS WHEREAS the parties have hereunto set their hands on the day and date first above written.

....
(Witness) (The Retailer)

WESTERN GROCERS LTD.

By

.....
(The Wholesaler)

Q. Senator Croll, page 739: A comparison of retail mark-ups on a prescribed list of items.

A. Comparable data for 1965 and 1966 for several specified food items are given as follows:

COMPARISON OF WHOLESALE AND RETAIL PRICES
AND
PERCENTAGE PROFIT ON RETAIL SELLING PRICE OCTOBER 1965 VS. OCTOBER 1966

PRICES FROM WESTERN GROCERS LTD. WINNIPEG BRANCH AND SHOP-EASY STORES, WINNIPEG

Commodity	1965			1966			% + or − 66 vs. 65
	Whsle. Cost + 3.7%	Retail	% Profit	Whsle. Cost + 3.7%	Retail	% Profit	
Sugar	10/5# bag	.49	16.5	4.04	.45	10	− 6.5
Coffee Break Instant Coffee	11.13	1.15	19	13.09	1.49	26	+ 7
Cornflakes, Kellogg's	9.85	.33	17	10.45	.33	12	− 5
Cigarettes, carton	4.04	.42	4	4.23	.46	8	+ 4
Heinz Baby Food, Str.	2.41	3/34	12	2.57	5/65	18	+ 6
Javex Bleach	4.87	.31	12.5	4.87	.31	12.5	—
Ballet Toilet Tissue	9.42	.49	20	10.98	.57	20	—
Robin Hood Flour	4.75	1.09	13	4.34	1.15	24.5	+11.5
Tide Detergent	10.65	1.03	14	10.86	1.03	12	− 2
Betty Crocker White Cake Mix	4.87	.49	17	4.87	.49	17	—
Kleenex Facial Tissue	9.04	2/65	22.5	9.89	2/67	18	− 4.5
Crest Toothpaste	6.01	.75	33	6.01	.69	27.5	− 5.5
Canned Milk	7.36	2/37	17	7.62	2/39	18.5	+ 1.5
Weston Sodas	3.80	.39	19	3.89	.41	21	+ 2
Better Buy Tea Bags	8.19	.89	23.5	8.35	.89	22	− 1.5
Seven Farms Skim Milk Powder	10.89	1.15	21	10.42	1.19	27	+ 6
Milk	Quart	.23	4.34		.25	6	+ 1.66
Butter	1 lb.	.64	6.93		.70	7.14	+ .21
Bread, Dutch Oven	16 oz.	2/37	9.5		2/41	12	+ 2.5
Eggs, large	1 dozen	.51	13.72		.66	9.09	− 4.63
Orange Juice, Frozen, Libby's	6 oz.	2/59	29		2/57	27	− 2
Bacon	1 lb.	1.09	27.5		1.15	23.5	− 4
Sausage, Pure Pork	1 lb.	.79	20.5		.73	23	+ 2.5
Chicken	Per lb.	.49	28.5		.49	28.5	—
Wieners	Per lb.	.59	32		.63	25.5	− 6.5
Bologna	Per lb.	.39	25.5		.45	24.5	− 1
Pork Side Spare Ribs	lb.	.79	31.5		.79	29	− 2.5
Potatoes	25#	1.19	29		.89	8	−21

Q. Senator Croll Page 739: A list of your private brands together with comparable national brands and their prices.

A. The Company has replied in the following manner:

WHOLESALE COST AND SUGGESTED RETAIL PRICES NOVEMBER 1966

COMPARABLE CONTROLLED LABEL AND NATIONAL BRAND PRODUCTS
(Prices from Western Grocers Ltd. Winnipeg Branch November 1966 Catalogue.)
Wholesale Costs are by the case—Retail prices are by the Single Unit

Product	Pack and Size	Controlled Label			National Brand		
		Name	Wholesale	Retail	Name	Wholesale	Retail
Flour, Paper	1/25#	Dutch Oven	1.67	2.25	Five Roses	1.93	2.35
Inst. Coffee	12/16 oz.	Coffee Break	8.87	.99	Max. House	11.45	1.33
Tea Bags	12/100's	Better Buy	8.05	.89	Blue Ribbon	8.10	.95
Powder Milk	12/3 S	Seven Farms	10.50	1.19	Carnation	12.25	1.29
Powder Milk	4/8 S	Seven Farms	8.60	2.99	Milko	10.00	3.19
Apricots, Ch., Halves	24/15 oz.	Malkin's	5.52	.31	Libby's Fcy	6.85	.39
Bing Cherries	24/15 oz.	Malkin's	7.64	.43	Aylmer	7.90	.47
Fruit Cocktail	24/15 oz.	Malkin's	5.61	.29	Libby's	5.66	.31
Peaches, Ch., Halves	24/14 oz.	Malkin's	5.30	2/55	Aylmer	5.85	2/59
Pears, Ch., Bart., Hlvs	24/15 oz.	Malkin's	6.63	.35	Libby's, Fcy	6.60	.37
Pineapple, Cr.	24/15 oz.	Malkin's	4.85	2/53	Libby's	5.95	.31
Pineapple Tid-Bits	24/15 oz.	Malkin's	5.03	2/53	Libby's, Chunks	5.95	.31
Pineapple, Sliced	24/15 oz.	Malkin's	5.17	2/55	Libby's	5.95	.31
Raspberries, Ch.	24/15 oz.	Malkin's	7.54	.39	Aylmer	7.70	.41
Strawberries, Ch.	24/15 oz.	Malkin's	7.37	.41	York	7.36	.43
Apple Juice, Clear	12/48 oz.	Malkin's	3.55	.39	Sunrype	4.30	.47
Pineapple Juice	12/48 oz.	Malkin's	4.00	.41	Libby's	3.73	.41
Tomato Juice, Fcy	24/20 oz.	Malkin's	3.59	2/37	Heinz	4.10	2/43
Tomato Juice, Fcy	12/48 oz.	Malkin's	3.89	.39	Heinz	4.50	.47
Asparagus Tips, Fcy	24/12 oz.	Malkin's	9.43	.49	Aylmer	9.55	.49
Asparagus, Cut	24/12 oz.	Garden Gate	5.33	.29	Aylmer	5.40	.29
Green Beans, Fcy., Cut	24/15 oz.	Malkin's	5.06	.27	Gr. Giant	4.85	2/53
Green Beans, Fcy., Whl	24/15 oz.	Malkin's	5.96	.31	Aylmer	5.80	.31
Green Beans, Fcy., Sl	24/15 oz.	Malkin's	4.39	2/49	Aylmer	4.55	2/49
Wax Beans, Ch., Cut	24/15 oz.	Malkin's	4.35	2/45	Gr. Giant	4.85	2/47
Beets, Sliced	24/15 oz.	Malkin's	3.56	.19	Aylmer	3.36	2/37
Cream Corn, Fcy	24/15 oz.	Malkin's	3.60	2/39	Libby's	4.15	2/43
Kernel Corn, V.P.	24/14 oz.	Malkin's	3.88	2/41	Gr. Giant	4.51	2/45
Mixed Vegetables	24/15 oz.	Malkin's	4.42	2/47	Libby's	4.35	2/47
Mushrooms, Pcs. and Stems	24/10 oz.	Garden Gate	6.47	.35	China Lily	8.01	.43
Mushrooms Whole	24/10 oz.	Garden Gate	7.25	.43	Leaver	8.51	.47
Peas, Fcy., Asst	24/10 oz.	Malkin's	3.79	2/39	Gr. Giant	3.85	2/39
Peas, Fcy., Asst	24/15 oz.	Malkin's	3.85	2/39	Libby's	4.65	2/47
Peas, Ungr., Ch.	24/15 oz.	Garden Gate	2.95	2/35	Aylmer	3.33	2/39
Peas and Carrots	24/15 oz.	Malkin's	4.12	2/45	Libby's	4.05	2/43
Tomatoes, Ch.	24/19 oz.	Malkin's	5.59	.31	Aylmer	5.67	.33
Tomatoes, Ch.	24/28 oz.	Malkin's	6.65	.35	Libby's	6.90	.39
Chicken Haddie	24/14 oz.	Sea Lord	8.26	.41	Mephisto	7.96	.41

WHOLESALE COST AND SUGGESTED RETAIL PRICES NOVEMBER 1966 (Cont.)

COMPARABLE CONTROLLED LABEL AND NATIONAL BRAND PRODUCTS
(Prices from Western Grocers Ltd. Winnipeg Branch November 1966 Catalogue.)
Wholesale Costs are by the case—Retail prices are by the Single Unit

Product	Pack and Size	Controlled Label			National Brand		
		Name	Wholesale	Retail	Name	Wholesale	Retail
Shrimp, Sm., Reg.	24/4 oz.	Sea Lord	11.20	.59	Gold Seal	14.31	.79
Shrimp, Med., Reg.	24/4 oz.	Sea Lord	12.40	.67	Gold Seal	17.31	.93
Tuna, Flaked, White	48/7 oz.	Sea Lord	13.75	.39	Gold Seal	15.06	.41
Tuna, Solid, White	48/7 oz.	Sea Lord	16.20	.43	Gold Seal	18.81	.49
Pork and Beans	48/15 oz.	Malkin's	7.03	2/37	Aylmer	8.50	2/43
Pork and Beans	24/20 oz.	Malkin's	4.96	2/53	Aylmer	4.70	.27
Pork and Beans	24/28 oz.	Malkin's	6.96	.37	Libby's	8.00	.41
Pork and Beans	48/15 oz.	Better Buy	6.50	2/35	Clark's	7.82	2/39
Spaghetti in Tomato Sauce	24/15 oz.	Malkin's	3.83	2/41	Libby's	4.05	2/43
Olives, Stuffed, P.P.	24/8 oz.	Malkin's	8.60	.45	Libby's	8.85	.53
Olives, Stuffed, L.P.	12/12 oz.	Malkin's	5.05	.55	Libby's	4.95	.59
Cheese Slices	24/8 oz.	Seven Farms	6.88	.35	Kraft	8.16	.41
Cheese Slices	12/16 oz.	Seven Farms	6.63	.69	Kraft	7.21	.75
Margarine	36/1 S	Better Buy	8.75	2/59	Monarch	11.70	2/75
Bleach	8/64 oz.	Cala	2.90	.45	Javex	3.60	.59
Bleach	6/128 oz.	Cala	3.62	.79	Javex	4.60	.95
Toilet Soap	12/8 S	Cala	5.65	.59	Woodbury	11.00	.94
Apricot Jam	12/12 oz.	Malkin's	3.45	.39	Kraft 12/9	4.00	.43
Blueberry Jam	12/12 oz.	Malkin's	4.65	.49	Kraft 12/9	4.55	.49
Peach Jam	12/12 oz.	Malkin's	3.40	.39	Kraft 12/9	4.00	.39
Plum Jam	12/12 oz.	Malkin's	3.00	.35	Kraft 12/9	4.00	.39
Raspberry Jam	12/12 oz.	Malkin's	3.85	.45	Kraft 12/9	4.20	.45
Strawberry Jam	12/12 oz.	Malkin's	4.35	.49	Kraft 12/9	4.20	.45
Crabapple Jelly	12/12 oz.	Malkin's	3.75	.41	Kraft 12/9	3.45	.37
Grape Jelly	12/12 oz.	Malkin's	4.15	.45	Kraft 12/9	3.45	.37
Orange Marmalade	12/12 oz.	Malkin's	3.05	.35	Shirriff	3.80	.41
Citro Marmalade	12/12 oz.	Malkin's	3.05	.35	Shirriff	3.80	.41
Pineapple Marmalade	12/12 oz.	Malkin's	3.65	.43	Kraft 12/9	3.65	.39
Citro Marmalade	12/2 lb.	Malkin's	4.90	.53	Kraft 12/24	6.20	.65
Orange Marmalade	12/2 lb.	Malkin's	4.90	.53	Kraft 12/24	6.25	.65
Long Rice	24/1 lb.	Dot West	4.28	.24	Delta	4.67	.26
Long Rice	12/2 lb.	Dot West	4.18	.47	Delta	4.57	.49
Short Rice	24/1 lb.	Dot West	3.88	.22	Delta	4.27	.23
Short Rice	12/2 lb.	Dot West	3.78	.43	Delta	4.17	.45
Aluminum Foil	24/12 in.	Dot West	6.10	.35	Reynolds	7.00	.39
Aluminum Foil	12/18 in.	Dot West	6.20	.69	Reynolds	6.60	.75
Tissue	12/8 S	Better Buy	8.20	.89	Scott	9.45	1.14

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LÉON-J. RAYMOND,
The Clerk of the House.



First Session—Twenty-seventh Parliament

1966

PROCEEDINGS OF

THE SPECIAL JOINT COMMITTEE OF THE SENATE

AND HOUSE OF COMMONS ON

CONSUMER CREDIT

(PRICES)

No. 27

FRIDAY, DECEMBER 16, 1966

JOINT CHAIRMEN

The Honourable Senator David A. Croll

and

Mr. Ron Basford, M.P.

INTERIM REPORT

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25344—1

MEMBERS OF THE SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON CONSUMER CREDIT

(PRICES)

For the Senate

Hon. David A. Croll, *Chairman*

the Honourable Senators

Carter,
Cook,
Croll,
Hastings,
Hollett,
Inman,
McDonald (*Moosomin*),
McGrand,
O'Leary (*Antigonish-Guysborough*),
Thorvaldson,
Urquhart,
Vaillancourt—(12).

For the House of Commons

Mr. Ron Basford, *Chairman*

Members of the House of Commons

Allmand,
Andras,
Basford,
Cashin,
Choquette,
Clancy,
Code,
Crossman,
Horner (*Acadia*),
Irvine,
Lamontagne,
Leblanc (*Laurier*),
Lefebvre,
MacInnis,
Mandziuk,
McCutcheon,
McLelland,
O'Keefe,
Olson,
Otto,
Ryan,
Saltsman,
Smith,
Whelan—(24).

36 members

Quorum 7

SUPPLEMENTARY ORDERS OF REFERENCE

Extract from the Votes and Proceedings of the House of Commons, September 9, 1966:

"Mr. Sharp, seconded by Miss LaMarsh, moved,—That the Joint Committee of the Senate and House of Commons appointed by this House on March 15, 1966, to enquire into and report upon the problems of consumer credit, be instructed to also enquire into and report upon the trends in the cost of living in Canada and factors which may have contributed to changes in the cost of living in Canada in recent months;

And that a Message be sent to the Senate to acquaint Their Honours thereof and to request the concurrence of that House thereto.

And the question being proposed;

Mr. Pickersgill, seconded by Mr. McIlraith, moved in amendment thereto,—That the motion be amended by striking out the words "by this House on March 15, 1966" where they appear in the second line thereof and by inserting in the motion as the second paragraph the following:

"That the Committee have leave to sit notwithstanding any adjournment of this House;".

And the question being put on the said amendment, it was agreed to.

After debate on the main motion as amended, it was agreed to."

Extract from the Votes and Proceedings of the House of Commons, October 7, 1966:

By unanimous consent, Mr. Basford, seconded by Mr. Allmand, moved,—That the First and Second Reports of the Special Joint Committee on Consumer Credit and Cost of Living, presented to the House on Friday, April 1 and Thursday, October 6, 1966, be concurred in.

After debate thereon, the question being put on the said motion, it was agreed to.

Accordingly, the said Reports were concurred in and are as follows:

FIRST REPORT

Your Committee recommends that seven (7) of its Members constitute a quorum, provided that both Houses are represented.

SECOND REPORT

Your Committee recommends that the House of Commons section of the said Committee be granted leave to sit while the House is sitting.

LÉON-J. RAYMOND,
Clerk of the House of Commons.

Extract from the Minutes of the Proceedings of the Senate, September 13, 1966:

"The Honourable Senator Connolly, P.C., moved, seconded by the Honourable Senator Hugessen:

That the Senate do agree that the Joint Committee of the Senate and House of Commons appointed to enquire into and report upon the problems of consumer credit, be instructed also to enquire into and report

25344—1½

upon the trends in the cost of living in Canada and factors which may have contributed to changes in the cost of living in Canada in recent months; and

That a message be sent to the House of Commons to acquaint that House accordingly.

After debate, and—

The question being put on the motion, it was—

Resolved in the affirmative."

Extract from the Minutes of the Proceedings of the Senate, Tuesday, November 22, 1966:

The Honourable Senator Connolly, P.C., moved, seconded by the Honourable Senator Beaubien (*Provencher*):

That the Third Annual Review of the Economic Council of Canada relating to Prices, Productivity and Employment, dated November 1966, which was tabled in the Senate today, be referred to the Special Joint Committee of the Senate and House of Commons on Consumer Credit and Cost of Living.

The question being put on the motion, it was—

Resolved in the affirmative.

J. F. MacNEILL,
Clerk of the Senate.

MINUTES OF PROCEEDINGS

FRIDAY, December 16, 1966

Pursuant to adjournment and notice the Special Joint Committee on Consumer Credit (Prices) met this day at 9.30 a.m.

Present: For the Senate: The Honourable Senators Carter, Croll (*Joint Chairman*), Cook, Inman, McDonald (*Moosomin*), McGrand and O'Leary (*Antigonish-Guysborough*)—7.

For the House of Commons: Messrs. Basford (*Joint Chairman*), Choquette, Lamontagne, MacInnis, McCutcheon, Saltsman and Whelan.—7.

In attendance: Dr. R. Warren James, Special Assistant.

A draft Interim Report, submitted by the Joint Chairmen, was read, amended and adopted.

At 1.20 p.m. the Committee adjourned to the call of the Joint Chairmen.

Attest.

John A. Hinds,
Assistant Chief,
Senate Committees Branch.

INTERIM REPORT

(Tabled in both Houses of Parliament
Tuesday, December 20, 1966)

1. Preamble

During the first two weeks of September, 1966, the Senate and the House of Commons agreed to expand the terms of reference of the Joint Committee which had been appointed earlier to enquire into the problems of consumer credit. The added responsibility given to your Committee was "to enquire into and report upon the trends in the cost of living in Canada and factors which may have contributed to changes in the cost of living in Canada in recent months." Because of the public concern over increases in food prices, your Committee decided to concentrate its attention initially on the reasons for the upward movement in food prices. It also undertook to present an interim report to Parliament sometime during December. Your Committee met on forty-two occasions in the period from September 28 to December 13, 1966 and heard testimony from a representative cross-section of individuals and organizations. The list of hearings and witnesses during this period is shown in an appendix. Because of the pressure of time, many of the witnesses appeared on very short notice and your Committee wishes to record its appreciation to them for their invaluable assistance in its efforts to throw light on the factors influencing consumer prices.

Recently, Parliament has also referred to the Joint Committee on Consumer Credit (Prices) the Third Annual Review of the Economic Council of Canada entitled "Prices, Productivity and Employment." This important and complex report obviously requires detailed study and because of the shortness of time, it has not been possible to do more than refer briefly to some of the conclusions of the Economic Council of Canada which impinge directly on the work of your Committee.

This interim report is necessarily brief. It is not and could not be expected to be an exhaustive analysis of the evidence. The limitations of time meant that the report could deal with a limited number of issues. Many other problems referred to during the Committee hearings require additional evidence, study and research before useful conclusions can be drawn.

2. General Observations

The economic experts both from the public service and the academic community who gave evidence to your Committee made it obvious that the factors influencing the cost of living in Canada were many and varied. Some changes could be explained by the increased price of imports. Canada's trading relations with other countries are intimate and important and it is therefore natural that the general increase in price levels in the recent past in most western countries has had a contagious effect on Canadian prices. In addition, domestic changes in the price of goods and services interact and reinforce each other. A great deal of the evidence presented to your Committee emphasized the fact that consumer prices moved in response to changed market conditions in other sectors of the economy or in markets outside Canada. These changing market conditions, in turn, affected the share of the national income going to labour, to farmers, to business and to others, but there was nothing to indicate that the recent changes in the cost of living in Canada arose out of unusual or unwarranted increases in the sizes of their respective shares. Your Committee's review of the evidence has

not yet revealed any group or sector of the economy which could be singled out and blamed for the recent increase in consumer prices. Its general conclusions were that there have been many factors contributing to the changes in the cost of living, particularly the price of food.

While there are many groups in the economy which are able to protect themselves against the rising costs of living, your Committee must recognize there are many such as, the handicapped, the aged and the unemployed upon whom the burden of price increases falls most heavily.

Since your Committee commenced its hearings on September 28, food prices as reflected in the food component of the Consumer Price Index have declined slightly and it is believed that the information which reached the housewife through the Committee hearings has had a stabilizing influence. The hearings have had a significant educational value for the members of your Committee, for the housewives and for the business community. Public attention has been focussed on the importance of the price and quality of consumer goods and it is the earnest hope of your Committee that Canadian housewives will shop both selectively and carefully.

For the first time, full public disclosure of the business practices and affairs of companies appearing before your Committee was requested. This applied to Canadian companies as well as to subsidiaries of non-Canadian corporations. In some instances, new light was thrown on extensive inter-corporate relationships which had not been made public before. In one case, one newspaper reported "For the first time, amazing extent of holdings revealed" and a press service referred to the "Stunning scope of food empire". All the proceedings were open and no information was given to your Committee in confidence. There was extensive coverage of the work of your Committee in the newspapers and on the radio and television.

3. The Need for Improved Statistical Information

Your Committee experienced some difficulty in obtaining satisfactory statistics on the prices of a number of important commodities at the farm, wholesale and retail levels. This was particularly true of meats. In part, this arose from the division of responsibility between the Department of Agriculture and the Dominion Bureau of Statistics. It is the view of your Committee that there will be continuing interest in the trend of prices. For purposes of economic analysis and studies of distribution, improved statistics concerning prices at all distributive levels are essential. For this reason, it recommends both a greater degree of interdepartmental co-ordination in the compilation of price statistics and the diversion of professional staff to expand and improve the statistical information on prices throughout the public service, and particularly in the Dominion Bureau of Statistics. While the quality of the work performed by the Dominion Bureau of Statistics is very good, your Committee firmly believes that its work in some fields was being impeded by shortages of professionally qualified staff.

The principal way of informing the public of the changing level of prices is the monthly Consumer Price Index issued by the Dominion Bureau of Statistics. This is a sophisticated and valuable economic measuring device but it is nevertheless difficult for an ordinary consumer to interpret it as it applies to her normal purchases for her family. While the existing published consumer price indexes provide a very useful measure of price movements affecting consumers nationally and in major urban centres, additional statistical indicators are required. In particular, there is a pressing need for the Dominion Bureau of Statistics to broaden the scope of its retail pricing program to encompass a wider range of qualities of goods and services and to allow more useful item price averages to be derived, by cities, on a continuing basis. It is recognized that an expansion of available retail price statistics along these lines will require additional resources, both in the field collection of price data and in its evaluation,

processing and analysis. A good deal of information on various aspects of consumer prices is published by the Dominion Bureau of Statistics but it is not usually easily available to the consumer. The consumer appears to be less well served in this respect than some other groups in the community. For example, her ability to detect seasonal and other trends in food prices is impaired by a lack of information. Your Committee recognizes that there are technical problems in compiling accurate price statistics but nevertheless believes that it is an appropriate governmental function to disseminate price information as widely as possible to the consuming public.

Although your Committee's primary concern was with prices, it necessarily became involved on several occasions with other kinds of economic statistics. Specific evidence was given, notably by the Chairman of the Economic Council of Canada, that there were serious deficiencies in the government system of collecting, analyzing and issuing statistics relating to economic conditions. Moreover, your Committee was impressed by the urgent need for comprehensive, accurate and timely statistics in the formulation of government economic and fiscal policy. Because of the importance of having good and current information about short-run economic changes, your Committee proposes that a detailed review of the government statistical system be undertaken with a view to modernizing, improving and co-ordinating the whole process of collecting and compiling economic data.

Recommendations:

(a) That additional staff resources be provided to the Dominion Bureau of Statistics to improve the collection of urgently needed statistical information on price movements.

(b) That more information concerning consumer prices be made available to the public in as simplified a form as possible.

(c) That a thorough review be made of the governmental system of collecting, analyzing and issuing other types of economic statistics in addition to price statistics.

4. Parliamentary Responsibility for Consumer Affairs

The experience in Canada and in many other western countries demonstrates the need for Parliament to be informed on both general and specific economic developments. Economics cannot properly be the exclusive province of experts, even though it has aspects which are technically complex. The study of particular legislation or special problems by ad hoc parliamentary committees does not meet the continuing need of Parliament to become familiar with the issues of current economic policy. For this reason, your Committee has concluded that it would be desirable to establish a Joint Committee of the Senate and House of Commons whose primary aim would be to keep under continuous review the whole field of consumer affairs. In addition to this, the proposed Committee should have the responsibility for surveying economic developments in the Canadian economy which affect employment, income and consumption levels. A Committee of Parliament would be immediately responsive to parliamentary or public concern over problems affecting the consumer.

It is recommended further that such a Joint Committee be established for the life of a parliament in order to provide continuity to its work and that it should act on problems referred to it by Parliament.

It is essential to provide the Joint Committee with the services of a professional staff. It is of interest to note that the Third Annual Review of the Economic Council makes a somewhat similar suggestion and outlines some specific tasks which a Joint Committee might undertake.

Recommendation:

That a Joint Committee be established to review consumer affairs and the state of the Canadian economy.

5. The Influence of Consumer Demand on Food Prices

It was brought out in testimony before your Committee that there is an increasing tendency for consumers to buy convenience foods. Such foods require a minimum of preparation before cooking and in some cases merely need to be thawed. In part, this is a consequence of the increasing number of married women in the labour force and the unwillingness or inability of many consumers to devote much of their time to food preparation. Your Committee has no views on the cultural aspects of this development but does recognize the fact that the price of convenience foods must inevitably include some allowance for the costs of preparation. If consumers prefer partially or completely prepared foods, they should be perfectly free to exercise their choice. However, if their time spent in the kitchen is reduced, it is to be expected that the cost of eating will be increased.

In the past few months, there has been widespread publicity and controversy concerning rising food costs. Public interest has been stimulated by the formation of consumer protest organizations, by the hearings before the Joint Committee on Consumer Credit (Prices) and by discussions in the press and on the radio and television. Your Committee has gained the impression, based partly on the volume of its mail from the public, that consumers are looking at prices more carefully. There are quite acceptable substitutes for many types of food and consumers can affect the prices of particular items simply by not buying them if they think the price is excessive. It is also true that some consumers could reduce their food budgets by shopping carefully provided the retail food markets available to them are truly competitive. The conclusion of your Committee is that if consumers are well informed and discriminating in their shopping practices they can reduce their food bill appreciably in many cases. Consumer education is a matter of such importance for the welfare of individuals and families that increasing attention should be devoted to it in the Canadian educational system beginning in the secondary schools. A vast amount of information useful to consumers is available through newspapers, magazines and the publications of government departments. Your Committee's opinion is that increased efforts should be undertaken by the government departments involved to distribute as widely as possible attractive and informative material which will help the Canadian housewife to be a well informed and careful shopper.

Recommendation:

That increasing attention be devoted to consumer education both through the educational system and by the wider distribution of information useful to consumers through government channels.

6. Consumer Standards and Consumer Protection

The problems of the consumer in the market place are accentuated by the changing nature of retailing itself. The rise of the supermarket has meant that for a wide range of commonly purchased items retailing has become impersonal. At one time the retailer was a source of information about the products he sold but the modern supermarket offering many thousands of products usually relies on the consumer to select her own purchases on the basis of her own knowledge.

Product information must be provided. Consumers must be informed about physical properties or products they are buying such as weight, volume, quality and number of units and this information should be immediately available at the time of purchase and should be expressed clearly and unequivocally.

Your Committee could cite many examples taken from letters received from dissatisfied consumers about merchandising and packaging techniques which annoy the consumer and make it difficult if not well nigh impossible for the consumer to compare price and quality of different products effectively and quickly.

Facts should be presented in a prominent place on the package or container in a form which is legible and free from graphic distortion. Where applicable, the ingredients should be revealed both by name and percentage of composition, and the consumer should also know about the quality of the product.

In particular:

(1) the product should be described by its generic name where this is meaningful;

(2) where products are of a certain type, variety and quality, they should be graded;

(3) packages should be designed in terms of size, shape or dimension in a way that will not deceive or mislead retail purchasers;

(4) the net quantity of the contents in terms of weight or measure should be expressed as simply as possible and in terms which can be easily interpreted;

(5) the essential information about a packaged product and its physical contents should be stated in a prominent place on the label.

It is essential for the government to take all measures within its power to foster the welfare of the consumer. In particular, the government has a responsibility for protecting the consumer against all forms of exploitation.

One aspect of this responsibility was referred by the Government in July, 1966 to the Economic Council of Canada for investigation. The terms of reference of the study to be carried out are:

"In the light of the Government's long term economic objectives to study and advise regarding:

(a) the interests of the consumer particularly as they relate to the functions of the Department of the Registrar General;

(b) combines, mergers, monopolies and restraint of trade;

(c) patents, trade marks, copyrights and registered industrial designs."

In the normal course of events the findings of the Economic Council of Canada will not be available until late 1967. Your Committee, however, feels that the function of consumer protection is of such urgency as to require the establishment of a Department of Consumer Affairs. Because of the special responsibility of the Department of Health and Welfare, the Department of Agriculture, the Department of Fisheries and the Department of the Registrar General, your Committee is not prepared to recommend the nature of the administrative structure for such a department until the Economic Council of Canada reports. However, because of the need for consumer protection, for coordination of existing legislation and for the immediate establishment of machinery to receive and investigate consumer complaints, the Economic Council of Canada should be asked to report on item (a) of their reference as soon as possible.

Additional legislative authorization may be necessary ultimately for the protection of the consumer but this should not stand in the way of immediate action which could be carried out under existing regulations. Your Committee reached certain specific conclusions, which are:

(a) with particular respect to food, that the establishment of standards and grades should be extended to cover all commonly purchased foods for which standards or grades would be useful to the consumer.

(b) that a standardized nomenclature for designating grades for different classes of food should be developed as quickly as possible and that an intensive campaign should be undertaken to acquaint consumers with the meaning of the grades;

(c) that manufacturers of consumer products should be required to modify their packaging techniques so that, where applicable, the weights or contents are expressed in terms which minimize the difficulties of calculating and comparing prices.

Recommendations:

(a) That a Department of Consumer Affairs headed by a Minister be established.

(b) That immediate steps be taken to promote standardization and simplification of grades, nomenclature and packaging for commonly purchased consumer items.

7. The Promotion of Retail Sales

Your Committee noted, with interest, the variety of promotional schemes which had been introduced by the major retail chains to encourage customer loyalty. One senior executive of a corporate chain expressed the view:

> "A lot of people are anxious to play games and have these contests. It is all part of their present-day life to engage in these adventurous things. It is a challenge...Have you ever considered how dull it would be for a housewife to go into a store and see nothing but price tickets and a display of produce."

The competitive significance of promotional devices was emphasized by another chain store executive when he said, "If stamps are in fashion, then you had better be in style yourself."

The impact of stamps, premiums, games and contests on the retail price level is difficult to assess and clear differences of opinion were expressed by responsible officials of the chain and other stores. Your Committee did not have sufficient evidence at this time to reach any final conclusions about the effect of promotional devices on prices but it did conclude that the different forms of promotion should be used with restraint. Its opinion was that competition not based on price should not be allowed to diminish unduly the healthy effects of vigorous price competition at the retail level. It is your Committee's intention to conduct further investigations for the purpose of making final recommendations on promotional devices such as trading stamps, games and contests.

Your Committee, however, saw at least one example of a technique of price competition which it considered to be objectionable. This was the system, evidently sponsored by manufacturers or processors, of labelling packages to imply that the product was being sold below the regular retail price. The use of the so-called "cents-off" labels seems to be of fairly recent origin and now to be quite common for such classes of commodities as detergents and processed foods. Your Committee feels that this device tends to create uncertainty about what the regular retail price is, particularly in a period of change. Cents-off labels therefore, confuse the consumer and lead to abuses. Anything which smacks of deception in advertising and merchandising is unacceptable. Competition or promotion on the basis of price or quality is a desirable goal but competitive methods which create doubt or confusion should be prohibited.

Your Committee learned much about the methods used by chain stores to attract customers. On the other hand, it observed some actions by food retailers which were poor from the viewpoint of their public relations. Your Committee's attention was repeatedly drawn to the practice of remarking goods on the shelves with a new and higher price without removing the old price. Whatever

the reason for the practice, your Committee's view was that some adjustment in the method of inventory management and more care in marking prices on containers would eliminate this irritant to consumers.

Recommendations:

(a) That non-price competition by retail food outlets should not be allowed to become sufficiently important to outweigh price competition.

(b) That cents-off labels, in view of their tendency to cause confusion and to distort price relationships, should be prohibited.

(c) That the Minister to be responsible for consumer affairs undertake a review of the effectiveness of the investigation and prosecution procedures under existing statutes relating to misleading advertising.

(d) That more care should be used in re-marking the prices of goods in the inventories of retail food stores.

8. Public Disclosure

In times of both depression and prosperity, Canada has in the past resorted to a series of Royal Commissions or parliamentary inquiries on prices and price spreads, each of which has had to compile its own information on costs, profits and return on investments. Your Committee was no different, and used its parliamentary privilege to ask for and receive from corporate witnesses information never before made public. However, your Committee feels strongly that if those responsible for or concerned about the management of public affairs are to be properly informed, such information should be available publicly on a continuous basis for the scrutiny of parliamentarians, public officials, consumer groups, investment analysts and the academic community. Such public disclosure would also be a spur to greater efficiency and productivity by preventing inefficient entrepreneurs from hiding their inefficiency from shareholders or public scrutiny. Further, your Committee sees no reason why large public companies should be compelled to compete in the market place against other large private competitors whose operations are almost wholly secret and many of which are privately held wholly-owned subsidiaries of non-Canadian parents.

Recommendations:

(a) That the distinction between disclosure requirements for private companies of significance to the public and public companies be eliminated.

(b) That the disclosure requirements for both public and such private companies be enlarged to assure full and complete disclosure of corporate activities to give to the public sufficient information for meaningful continuous analysis and comparison.

9. Profits of Corporate Food Chains

The Joint Committee on Consumer Credit (Prices) asked for and received detailed statistical information concerning the experience of the companies which appeared before it. One of its principal purposes was to determine if there had been any significant recent changes in the levels of costs, prices or profits which would help to account for the upward movement of the cost of living. In particular, your Committee concerned itself with the profit levels of the corporate food chains. This whole question was looked into by your Committee.

One way of measuring profitability is to examine net profit after taxes as a percentage of gross sales. Your Committee is aware that this method of comparing profit levels has some deficiencies and that an analysis should also be

made of profits in relation to invested capital. Such an examination raises theoretical and practical accounting problems and while the necessary research has been started, the results are not available for this interim report. Your Committee has retained the services of a firm specializing in management consulting and accounting which has undertaken to conduct a study in this field.

The level of profits in the Canadian economy as a whole was discussed by several expert witnesses who testified before your Committee. Their opinion was that in the late stages of an expansionary period there tended to be a squeeze on profit margins. This resulted from rising costs and the inability of sellers in competitive markets to raise prices sufficiently to offset them. Although statistical evidence was not conclusive, it did appear that profit levels or ratios had not risen generally and that one would have to look elsewhere to explain the changes in the cost of living after a long uninterrupted period of prosperity.

10. Advertising

Your Committee heard lengthy arguments concerning the economic consequences of advertising. It also accumulated a considerable amount of information relating to advertising expenditures and the way in which advertising costs are shared among different distributive levels in the food industry. There was evidence that the market power of the retail level of the food industry was sufficiently strong to shift some of the burden of advertising costs to food processors or manufacturers. In the time available to your Committee, it was not possible to ascertain all the facts necessary to reach any firm conclusion. However, your Committee decided that more information was needed.

11. Concentration and Cost Levels in the Food Industry

The terms of reference of the Joint Committee on Consumer Credit (Prices) necessarily meant that primary attention was focussed on factors influencing recent changes in consumer prices. Your Committee was not, as a result able to devote more than passing attention to some of the longer run influences at work in wholesale and retail food distribution.

Although the preliminary judgment of the Committee was that profits in the different levels of food processing and distribution had not increased substantially or generally in the recent past this does not answer a very relevant question, namely, whether the cost levels in the industry were reasonably low in the light of Canadian conditions.

Your Committee uncovered specific evidence of great concentration of market power. It came to public attention as a result of questions by your Committee and disclosed more particularly the so-called Weston Empire.

This disclosure was an astonishing revelation and the enormity of the Weston complex surprised even the sophisticated. The far-reaching implications will take some time to assess. The Weston Empire reveals for the first time vast holdings and control over food and other related aspects of the economy which will need further investigation to reveal all the implications and to do this, more specific information will of course, be required.

The detergent and soap industry, it appears from the evidence, is controlled by three giants which among them have between 85 and 90 per cent of the total business.

The five great corporate food chains and the voluntary chains control more than 75 per cent of the grocery business in urban areas and their percentage is increasing.

In one part of the food processing industry, one firm controls 100 per cent of the market in the Maritimes and Western Canada and at least 80 per cent of the market in Ontario and Quebec.

The domination of a few large corporations in some sectors of the Canadian economy is clearly evident and gives rise to the question, "Is this in the public interest?" Your Committee feels that the implications of this question must be fully examined.

In view of this, your Committee recommends that a thorough assessment should be made of the organization of the food industry with the object of publicizing any monopolistic tendencies which may exist, of determining whether the market power of any group or groups is sufficient to impair the workings of a competitive market and whether there are any undue barriers to entry.

Recommendation:

That the Joint Committee on Consumer Credit (Prices) continue with its investigation of concentration in the food industry.

12. Price Control

The view is sometimes expressed that price control by government edict is the easy answer to price stability. All the witnesses who were questioned on this matter disagreed with the opinion and demonstrated clearly that this was an unworkable and unrealistic solution. Your Committee concurs in the conclusion that price control is a fallacious method of attempting to control any general increase in prices. It notes, furthermore, that the federal government does not have the constitutional power to enter this field.

13. Co-operatives

In order to meet its self-imposed deadline of an interim report in December, your Committee did not have an opportunity to call witnesses on co-operative organizations, but recognizing the importance of the movement intends to do so.

All which is respectfully submitted.

DAVID A. CROLL,
Joint Chairman.

RON BASFORD,
Joint Chairman.

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Appendix: List of Hearings and Witnesses

APPENDIX TO INTERIM REPORT

List of Hearings and Witnesses

No. 2	September 28, 1966	Department of Finance: Mr. R. B. Bryce, Deputy Minister; Mr. A. S. Rubinoff, Director, Economic Analysis Division.
No. 3	September 29, 1966	Professor E. P. Neufeld, Department of Political Economy, University of Toronto.
No. 4	October 4, 1966	Department of Agriculture, Production & Marketing Branch: Mr. S. B. Williams, Assistant Deputy Minister; Mr. R. K. Bennett, Director, Livestock Division; Mr. A. D. Davey, Director, Poultry Division.
No. 5	October 6, 1966	Department of Agriculture, Production & Marketing Branch: Mr. R. K. Bennett, Director, Livestock Division; Mr. S. B. Williams, Assistant Deputy Minister; Mr. C. R. Phillips, Director-General.
No. 6	October 11, 1966	Mr. H. K. Leckie, General Manager, Meat Packers Council of Canada. Department of Agriculture, Production & Marketing Branch: Mr. D. B. Goodwillie, Director, Dairy Products Division; Mr. S. B. Williams, Assistant Deputy minister; Mr. E. A. Eardley, Director, Fruit & Vegetable Division.
No. 7	October 13, 1966	Mr. Louis Rasminsky, Governor, Bank of Canada. Dominion Bureau of Statistics: Mr. A. D. Holmes, Director, Prices Division; Mr. Grove A. Lane, Chief, Retail Prices Section.
No. 8	October 17, 1966	The Great Atlantic & Pacific Tea Company Ltd.: Mr. G. N. Provost, Chairman and President; Mr. F. C. Kennedy, Vice-President, Sales; Mr. H. W. Piper, Director, Meat Operations; Mr. George Perley-Robertson, Q.C., Counsel.
No. 9	October 18, 1966	Dominion Stores Limited: Mr. Ivor Crimp, Vice-President, Corporate Projects; Mr. R. F. Chisholm, Executive Vice-President; Mr. J. S. Feggans, Vice-President, Advertising and Public Relations; Mr. T. G. Bolton, Director of Strategic Planning; Mr. N. H. Shaw, Q.C., Vice-President and General Counsel. Steinberg's Limited: Mr. Sam Steinberg,

	President; Mr. A. Steinberg, Vice-President and Treasurer; Mr. Jack Levine, Vice-President and General Manager, Quebec Division; Mr. Nathan Steinberg, Senior Vice-President; Mr. James H. Doyle.
No. 10 October 20, 1966	Loblaw Groceterias Co. Ltd.: Mr. R. G. Meech, Q.C., Vice-President and Secretary Treasury; Mr. Alex Agnew, Vice-President in charge of Meats; Mr. E. Davidson, Vice-President and General Manager of Services; Mr. George Huffman, Vice-President and General Manager; Mr. H. Shelly, Vice-President and General Manager of Warehousing; Mr. E. Rainey, Director of Produce Operations; Mr. George Astle, Merchandising Manager, Grocery Division; Mr. W. C. Miller, Dairy Department Manager; Mr. R. J. Kane, Management Consultant; Mr. A. Edwards, Director of Manufacturing and Bakery Departments. Canada Safeway Limited: Mr. W. J. Kraft, Chairman of the Board of Directors; Mr. R. G. Spelliscy, Area Comptroller; Mr. D. C. McGavin, Q.C., Director and Secretary; Mr. J. A. MacAulay, Q.C., Vice-President.
No. 11 October 25, 1966	M. Loeb Limited: Mr. Bertram Loeb, President; Mr. Curtis Kerns, Director of Perishables; Mr. Norman Lesh, Director of Advertising; Mr. Thomas Greig, Director of Finance; Mr. Jack Rabinovitch, Vice-President, Retail Operations; Mr. G. Fischer, Director of Meat Operations. Western Grocers Limited: Mr. E. S. Cooper, President.
No. 12 October 27, 1966	Atlantic Wholesalers Limited: Mr. D. J. Hamm, President; Mr. R. A. Milton, Vice-President. Couvrette et Provost Limitée: Mr. Aimé Boisvert, Vice-President, Development; Mr. Bernard Couvrette, President; Mr. René Provost, Executive Vice-President and General Manager; Mr. Gerard Carrière, Secretary and Vice-President; Mr. Gilles Brunet, Comptroller.
No. 13 November 1, 1966	H. J. Heinz Company of Canada Ltd.: Mr. John A. Connell, Executive Vice-President; Mr. R. G. Nelles, Vice-President, Finance; Mr. J. R. Crerar,

		Vice-President, Manufacturing; Mr. T. D. Smyth, Vice-President, Services. Gerber Products of Canada Ltd.: Mr. C. G. Smith, Vice-President and General Manager; Mr. A. S. Peacey, Secretary-Treasurer; Mr. R. T. Holman, General Sales Manager; Mr. J. J. Merrett, Manufacturing Manager; Mr. A. Theobalds, General Merchandising Manager.
No. 14	November 3, 1966	Canadian Canners Ltd.: Mr. Lawrence H. Johnston, President; Mr. W. G. Lister, Manager, Accounting Division; Mr. Reginald M. Mapp, Vice-President, Marketing.
No. 15	November 7, 1966	Burns Foods Limited: Mr. A. J. E. Child, President; Mr. R. W. Wiles, Plant Manager, Calgary.
No. 16	November 8, 1966	Swift Canadian Company Ltd.: Mr. P. L. Ayers, President; Mr. S. L. Medland, General Manager, Marketing Services Division; Mr. A. H. Beswick, General Processed Meats Manager; Mr. W. P. Christian, General Sales Manager; Mrs. Greta Elgis, Home Economist; Mr. R. E. Swan, General Beef, Lamb and Veal Manager. Canada Packers Limited: Mr. W. F. McLean, President.
No. 17	November 10, 1966	Kellogg Company of Canada, Ltd.: Mr. Gerry D. Robinson, President. General Foods Limited: Mr. James W. Andrews, President; Mr. Marcel Poirier, Sales Manager, Beverage Division; Mr. Robert S. Hurlbut, Vice-President, Marketing.
No. 18	November 15, 1966	Green Giant of Canada Limited: Mr. A. W. Anderson, President and General Manager; Mr. W. B. Eagen, Vice-President, Sales and Marketing; Mr. C. A. Farrow, Vice-President, Production; Mr. R. O. Thrane, Planning Assistant. Fullerton, Mackenzie & Associates Limited: Mr. D. H. Fullerton, President.
No. 19	November 17, 1966	Department of Agriculture: Dr. S. C. Barry, Deputy Minister; Mr. E. P. Grant, Chief of Processed Foods; Mr. S. B. Williams, Assistant Deputy Minister, Production and Marketing; Mr. D. B. Goodwillie, Director,

		Dairy Products Branch; Dr. C. K. Hetherington, Director, Meat Inspection Division, Health of Animals Branch; Mr. E. Eardley, Director, Fruit and Vegetable Division; Mr. F. E. Payne, Chief, Poultry Products Branch. National Institute of Economic Research of Sweden: Professor Borje R. V. Kragh, Director.
No. 20	November 22, 1966	Swift Canadian Company Ltd.: Mr. P. L. Ayers, President; Mr. L. V. Spalding, Secretary; Mr. W. P. Christian, General Sales Manager; Mr. A. H. Beswick, General Processed Meats Manager; Mr. R. E. Swan, General Beef, Lamb and Veal Manager. Dominion Bureau of Statistics: Mr. A. D. Holmes, Director, Prices Division; Mr. Grove A. Lane, Chief, Retail Prices Section.
No. 21	November 24, 1966	Economic Council of Canada: Dr. John J. Deutsch, Chairman; Dr. John Dawson, Staff Economist.
No. 22	November 29, 1966	Colgate-Palmolive Limited: Mr. Richard C. Beeson, President; Mr. W. S. Winter, Vice-President, Finance. Canadian Federation of Agriculture: Mr. David Kirk, Executive Secretary.
No. 23	December 1, 1966	The Procter & Gamble Co. of Canada Limited: Mr. George Williams, President and General Manager; Mr. F. E. Pollock, Director of Research and Development; Mr. J. R. Baillie, Vice President, Manufacturing; Mr. A. D. Garrett, Director of Advertising. Lever Brothers Limited: Mr. John C. Lockwood, President; Mr. Ronald W. Bates, Vice-President, Marketing; Mr. Peter G. Townley, General Sales Manager; Mr. Athol P. McDiarmid, Financial Director.
No. 24	December 6, 1966	Consumers' Association of Canada: Dr. H. E. English, Executive Vice-President; Professor R. E. Olley, National Director; Mrs. W. M. Auld, National Director; Dr. David MacFarlane, Professor of Economics, McGill University. The Canadian Manufacturers' Association: Mr. R. A. Engholm, Vice-President; Dr. M. W. Farrell, Chairman, Industrial Economists' Forum; Mr. J. C. Whitelaw,

		Executive Vice-President & General Manager; Mr. H. B. Style, Immediate Past President; Mr. C. A. Pollock, Chairman, Tariff Committee; Mr. Richard Lang, Manager of Tariff Department; Mr. H. J. Hemens, Chairman, Committee on Corporation Law; Mr. W. D. H. Frechette, General Secretary; Mr. Peter Bartha, Economic Research Director; Mr. Charles Perrault, Member, Executive Council.
No. 25	December 8, 1966	Canadian Labour Congress: Mr. W. Dodge, Executive Vice-President; Mr. R. Irvine, Director of Research; Mr. J. Fryer, Assistant Director of Research. Food and Drug Directorate of Department of National Health and Welfare: Dr. R. A. Chapman, Director-General; Mr. A. Hollett, Director, Bureau of Operations.
No. 26	December 13, 1966	Institute of Canadian Advertising: Mr. Bryan Vaughan, President; Mr. C. Warren Reynolds, Director; Mr. George G. Sinclair, Director; Mr. John M. Milne, First Vice-President; Mr. Wilfrid L. Charland, Director; Mr. John N. Milne, Director; Mr. Geoffrey W. Smith, Staff Executive. Grocery Products Manufacturers of Canada: Mr. Philip Moyes, President; Mr. S. Roxan, Statistician.

BINDING SECT. JAN 13 1969